



# Agency for International Development

Accompanying Report of the National Performance Review

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# Agency for International Development

## Executive Summary

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During the Cold War, the struggle between the East and West framed international politics and U.S. foreign assistance programs. Now that this period has ended, a new set of profound challenges to U.S. national interests has replaced the Cold War prism through which this nation viewed international events.

The U.S. Agency for International Development (AID) was created in 1961 to carry out this country's development assistance programs abroad. The astonishing scope and speed of global change has accelerated an urgent need for a reassessment of AID's ability to play an effective role in U.S. foreign affairs and in the field of international development.

AID currently employs about 4,000 people who support the work of missions in over 100 countries. The agency used an estimated 4,500 personal service contractors to design and implement more than 2,000 projects in fiscal year 1993. The agency administered a fiscal year 1993 budget of approximately \$7 billion.

The National Performance Review (NPR) considered the threshold question of AID's future existence. Reasonable arguments have been made for AID's absorption into the State Department, or for its abolishment. The NPR has concluded that the problem driving all AID's other problems is the lack of a clear and coherent mission and manageable set of priorities in legislation governing its programs and operations. AID's abolishment or absorption would not cure this central fact about the laws now covering its bilateral assistance programs. With a simplified mission, clearer priorities, strong leadership, innovative thinking, and fundamental reform of its programs and operations, AID could reclaim its potential to be an effective provider of U.S. development assistance.

AID Administrator J. Brian Atwood assumed his post in May 1993 and designated the entire agency as a reinvention laboratory, the first agency to do so. By doing this, AID has committed itself to fundamental reform, with the goal of transforming the agency into a high-performance, results-driven organization that can respond effectively to global challenges. Under its new administrator, AID will focus its development activities on sustainable development targeted toward four critical areas: the environment, population and health, economic growth, and democracy.

The NPR has isolated seven issues for discussion in this report and made recommendations for further action on fundamental problems facing the agency.

The agency's core problem is that it is burdened by too many responsibilities and expected to accomplish too many objectives. AID does not have a single, clearly defined and articulated strategic mission. External and internal control mechanisms have combined to deprive it of needed flexibility to make good decisions, and weigh it down with time-consuming and outdated reporting requirements. It is, in short, wrapped in red tape.

AID's U.S. and Foreign Service National employees are among its most important resources. As the agency adapts to the challenges of transforming itself to meet post-Cold War obligations with diminished resources, it must reassess its basic workforce management and contracting policies.

AID must also expedite critically needed reinvention of key business processes by creating an innovation fund to finance investment in new, integrated management information and financial management systems. AID's project and program management system, a core business function of the agency, needs to better reflect basic principles of customer service, focus on results, decentralize management authority, link results to planning and budgeting, and eliminate rules and procedures that hinder the accomplishment of results and accountability.

AID also needs to eliminate duplication of effort and function and target resources toward areas and activities most likely to produce successful results. At issue is whether the agency needs to maintain a field presence in more than 100 countries, whether assistance programs contain adequate incentives for recipients to succeed and graduate from those programs, and whether resources that support AID missions can be put to more effective use through leveraging of services provided by other agencies.

Coincident with the administrator's designation of the entire agency as a reinvention laboratory, AID created a Quality Council to coordinate and initiate reinvention initiatives. Actions taken and planned by AID, and proposed in this report, will transform AID and make it more relevant to this country's post-Cold War foreign policy.

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# Agency for International Development

## Recommendations and Actions

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# AID01: Redefine and Focus AID's Mission and Priorities

## Background

Few would argue that public organizations work best when they have one clear mission. Clarity of mission may be a government organization's single most important asset.(1) The Agency for International Development (AID) has been cited as a prime example of a failed exercise in mission-driven government, burdened as the agency has been by several different and sometimes conflicting missions.(2)

Reviewers inside and outside AID have documented serious problems in major agency programs and operations for more than a decade.(3) In 1992, a presidential commission recommended that the agency be merged into the State Department; a recent congressional task force and others have called for the agency to be abolished and to be replaced by other public or quasi-public entities.(4) While others have stopped short of recommending the agency's outright abolishment, the consensus of reviewers and informed commentators is that AID cannot continue to function as it has in the past.

Reinvention is not simply an option or a challenge for AID; it is an imperative. For reasons discussed in this and other sections of this report, the agency cannot succeed in reinvention without help from Congress and other agencies.(5)

The new administrator of AID, J. Brian Atwood, acknowledged the dimensions of the problem in testimony at his Senate confirmation hearing in April 1993:

We have confirmed what other studies have concluded: AID is burdened by a surfeit of goals and objectives, encumbered by excessive red tape, and beaten down by poor morale.

[I]t will not be business as usual at AID if I am confirmed for this position. The changes I will be proposing will be radical departures from past practices. [R]adical changes are the only way to regain the faith of the Congress and the country in an enterprise which is central to our nation's international agenda. We cannot afford to fail . . .(6)

The problem at the heart of all of AID's other problems, observers and employees agree, is that it is burdened by too many responsibilities and expected to accomplish too many objectives, particularly for an agency of its limited size and resources. In short, AID does not have a single, clearly defined and articulated strategic mission.

The Foreign Assistance Act of 1961, amendments to the act over a period of 30 years, and other laws affecting AID define nearly 40 different responsibilities to be carried out by the agency in the field of

international development.(7)

Included among AID's statutory responsibilities are agriculture, rural development and nutrition; population and health; education and human resource development; energy; private sector development; integration of women into national economies; human rights; and environment and natural resources.(8) And the list grows. Recent legislation gave the agency responsibilities for aid to the former Soviet Union and Eastern Europe and authorized the use of development assistance funds for capital projects (including investment promotion).(9)

Varied policy directions and emphases promoted by successive administrations, AID administrators, Congress, and outside interest groups pressing their own concerns have compounded the problem of too many statutory objectives. By 1989, one agency document identified 75 different mission priorities.(10)

This accumulation has led to what the U.S. General Accounting Office (GAO) has described as "a complicated and incoherent set of objectives with no clear priorities."(11) The only consistent but widely criticized assignment of priorities has been accomplished through the use of spending earmarks imposed by successive Congresses.(12)

Commentators, including AID employees, also assert that the proliferation of responsibilities contributes to confused or conflicting messages about the agency's basic mission. GAO has concurred in that critique, stating that while each of the many statutory responsibilities has merit, the multiple objectives in laws implemented by AID create confusion as to Congress' intent for the direction of the foreign assistance program, add to the tension between the executive and legislative branches on program priorities, and make it difficult to hold the agency accountable for reaching any particular objective.(13) Among examples cited of AID activities at cross-purposes with long-term international development are the agency's direct promotion of U.S private sector interests and its implementation of Economic Support Fund programs focused on short- term geo-political objectives.(14)

Critics are virtually unanimous that so long as AID continues to exist, there is an urgent need for its basic mission to be clearly defined and its priorities and objectives to be simplified. It should be noted that in interviews and research on this topic, the terms mission, principles, objectives, strategy, and related concepts are frequently used interchangeably, suggesting a lack of agreement as to what these terms signify. The clear consensus in the past five years, however, is that AID cannot continue to do so many things and do them all well.

Comprehensive new authorizing legislation has not been enacted by Congress since 1985. The world has changed fundamentally in the intervening years. Numerous efforts to enact new legislation during that time have met with failure.(15) The result has been that annual appropriations acts have added responsibilities to AID piecemeal and assigned priorities at will through the earmarking process.

Discussions about AID's mission have intensified in recent years. They are occurring in several broader contexts. First and foremost are the changed geo-political circumstances of the post-Cold War period. Second, a high-level Clinton administration task force is reviewing the entire U.S. government foreign assistance structure, including AID, in light of current and emerging global conditions.(16) This study is expected to analyze the United States' post-Cold War foreign assistance policy, the roles and responsibilities of the agencies and organizations implementing that policy, the dispersion of U.S. programs overseas (including trade and export promotion activities), possible consolidation or elimination of overlapping and duplicative functions, improved interagency coordination of foreign

assistance activities, and related issues.

As part of that review, Secretary of State Warren M. Christopher directed Deputy Secretary of State Clifton R. Wharton, Jr., to review AID's goals and objectives. Deputy Secretary Wharton and Administrator Atwood testified about the status of that report (known as the Wharton report) and the Clinton administration's review of all U.S. foreign assistance programs before a subcommittee of the Senate Foreign Affairs Committee in July 1993.(17)

The subcommittee chairman, Senator Paul S. Sarbanes, expressed a desire for expeditious completion of these reports to provide a basis for enacting new authorizing legislation.(18) Proposed congressional measures to authorize AID operations for fiscal year 1994 would require the President to submit a plan for reform of U.S. foreign assistance programs and AID to Congress within 60 days of the legislation's enactment into law.(19)

Secretary Christopher presented a fiscal year 1994 transition foreign assistance budget that he said would begin the process of redirecting U.S. foreign policy, establishing new priorities, and restructuring foreign policy institutions. U.S. foreign policy will emphasize three themes, implemented initially by a fiscal year 1994 budget submission organized around five objectives.(20) This focus on objectives, not just funding inputs, is a major departure from previous budget submissions.(21)

Administrator Atwood has publicly stated that his agency's primary mission should be long-term sustainable development with four strategic components:

- aiding the environment,
- addressing population and health,
- building democracy, and
- encouraging economic growth.(22)

He has spoken of the need for AID to carry out these responsibilities in partnerships with other government, non-government, and private voluntary organizations.(23) His redefinition of AID's mission corresponds in several important respects to recent congressional proposals for a new foreign policy framework, and provides a basis for productive dialogue with Congress on a new statutory foundation for AID operations.(24)

It bears noting, however, that challenges remain in implementing the administrator's redefined mission. He has expressed the view that AID cannot be all things to all people. He has also acknowledged the risks inherent in efforts to define a simpler mission based on sustainable development, a term that he recognizes "has taken on myriad meanings and has been invoked in many contexts." (25) Despite the comparatively small portion of the federal budget devoted to foreign aid, U.S. foreign assistance programs suffer from a lack of widespread public support.(26) In AID's case, this difficulty is compounded by its history of troubled programs and operations-- problems aggravated by the lack of a clear and coherent mission and a manageable set of priorities.

These factors underline the importance of explaining how the focus on sustainable development helps to simplify AID's mission, rather than to merely rebundle its current plethora of programs and objectives. A clear definition of this concept is important to develop the operational strategies needed to identify unrelated or non-essential programs and operations, and to conduct strategic planning.

Even assuming that AID does move in new directions, the agency is likely to be subject to external pressures from public and private sector groups and organizations that have benefited from AID support in the past. While there is broad support for simplifying AID's mission in theory, practical implementation will not be easy.

Due to budget cuts and adjustments to changed post-Cold War circumstances, AID's administrator has committed the agency to reductions in the number of programs, projects, and field missions currently operating in different countries.(27) It may be that this measure will be enough to make the agency's current roster of programs and operations more manageable. The administrator has also launched a review of agency programs and operational procedures.

An early result of this review has been to examine existing programs that facilitated movement of U.S. jobs overseas, and to put safeguards in place to prevent such programs from going forward in the future. It is not clear whether these steps, and the increased partnerships the administrator has described, will entail significant reductions in the overall number of agency programs and activities.

This question needs to be clearly addressed and resolved. It warrants serious scrutiny in view of several factors, including the agency's amply documented problems in managing its current array of programs, a shrinking personnel and budget resource base, and the availability of many other U.S. and international development organizations equally or better positioned to provide assistance to developing nations.(28)

In any event, without concerted and cooperative efforts by the executive and legislative branches to embody a clearer, more manageable AID mandate in law, and restraint in adding new legislative mandates beyond the agency's capacity to handle them, AID's future ability to effectively manage foreign assistance programs and its own operations cannot be ensured. The agency will continue to strain beyond its capacity to respond to challenges too numerous to be met. It will struggle to improve its serious internal management deficiencies while continued budgetary pressures threaten its funding base, and already-low levels of public support for foreign assistance erode further.

## **Actions**

1. The AID administrator should conduct a zero-based, bottom-up review of all AID programs and operations, identifying programs and operations that (a) do not directly support a clearly defined mission of sustainable development, and (b) can be undertaken by other assistance providers with a comparative advantage over AID. Nonessential and redundant programs should be eliminated.

Past evaluations of AID programs and operations show that the agency cannot do all that it is trying to do now and do it well. It is not yet clear that doing the same number of things, but in fewer countries, will make AID programs more effective and produce better results.

In any case, AID needs a redefined mission and reduced and simplified operations. It also needs to make its limited resources go further through partnerships with other government and non-government assistance providers. An assessment of all AID programs and operations based on these goals, with clear operational strategies for accomplishing the mission and priorities defined by the administrator, should assist in identifying programs and operations that can be reduced, eliminated, or transferred to other agencies (consistent with the current governmentwide review of foreign assistance activities).

2. The administration should seek comprehensive new authorizing legislation to replace the Foreign Assistance Act of 1961, as amended.

While some redirection of AID programs and operations can begin administratively, the agency's reinvention can only succeed if it starts with a clear redefinition in law of a more focused, consistent, and manageable agency mission. The AID administrator's concept, subject to clear definitions of sustainable development and other critical terms, appears to be a formulation around which a consensus could emerge.

This reinvention process should also include the identification--for congressional elimination or transfer to other agencies--of any activities that do not relate to and directly advance AID's principal mission.(29) Such legislative action is urgently needed to permit AID to succeed with other reform initiatives and to engage in more effective long-term planning and resource allocation.

3. The AID administrator should develop a strategic vision of what the agency should look like as it enters the 21st century.

Private sector companies that have achieved the most success in managing organizational change are those that have developed the clearest messages about the need for change. These messages often appear in the form of vision statements that express the reasons for change and define a strategic vision of what kind of organization the company needs to become.

Vision statements describe how an organization must operate and the type of results that it needs to achieve. They operate to remind people of the organization's objectives, act as a gauge for measuring progress, and serve to motivate people on a continuing basis during efforts to accomplish major change.(30)

NPR agrees with AID's administrator that the agency must make radical departures from past practices if it is to succeed in the volatile and complex international arena of the future. As part of the task of recharting the agency's course, he should lead the process of developing a vision statement to guide the agency's strategic planning of the fundamental changes needed to accomplish that goal. Each agency component can then develop a vision statement proceeding directly from and supporting the larger agency vision.

4. The AID administrator should conduct a comprehensive review of all agency directives and other internal and public issuances to ensure that they clearly express the agency's mission, priorities, and objectives in clear, consistent, and accurate terms.

A process should be established to ensure that all internal and external agency publications express the agency's mission, priorities, and objectives. Reported findings of as many as 75 different priorities in agency guidance indicate that the agency has compounded its problems in the past by defining too many objectives for an agency of its size and resources to manage.

## **Implications**

The efficacy of the new administrator's efforts to articulate a simpler, clearer mission depends in part on the completion of the Clinton administration review of foreign assistance policy and programs across the government. The administrator can implement his goals and priorities (i.e., to clarify AID's mission and streamline its priorities) to a limited extent without legislative reform--e.g., through clear and consistent policy guidance, resource reallocations, partnerships with other assistance providers, and other measures. Legislative reform, however, is critical to relieve the political and other pressures on AID to implement all the responsibilities and priorities found in current law.



## **Fiscal Impact**

The focus of the recommendations in this part of the report is on improving results. Cost savings may result from congressional action limiting the scope of AID's responsibilities, but no projections can be made at this time as to the likelihood or amounts of any such savings. Implementation of these recommendations should produce increased efficiency in agency operations. The actual fiscal impact of resulting changes depends on the nature and timing of their implementation, and cannot be estimated.

## **Endnotes**

1. Osborne, David, and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector* (Reading, MA: Addison-Wesley Publishing Company, Inc., 1992), pp. 130-131.
2. Ibid.
3. See, for example, "AID's Administrative and Management Problems in Providing Foreign Economic Assistance," Hearing, House, Committee on Government Operations, Subcommittee on Legislation and National Security, 97th Cong., 1st Sess. (October 6, 1981); U.S. General Accounting Office, *AID Management: Strategic Management Can Help AID Face Current and Future Challenges*, GAO/NSIAD-92-100 (Washington, D.C.: General Accounting Office (GAO), March 1992); The President's Commission on the Management of AID Programs (the Ferris Commission), *Report to the President: An Action Plan* (Washington, D.C., April 1992); and Joint OMB-AID SWAT Team, *Improving Management at the Agency for International Development* (Washington, D.C., 1992).
4. See, for example, Ferris Commission, *Action Plan*, p. 12; U.S. Congress, House, *Report of the Task Force on Foreign Assistance*, 101st Cong., 1st Sess. (February 1989), H. Rept. 101-32 (the Hamilton-Gilman report); and Hellinger, Stephen, Douglas Hellinger, and Fred M. O'Regan, *Aid for Just Development: Report on the Future of Foreign Assistance* (Boulder and London: Lynne Rienner Publishers, Inc., 1988), pp. 51-53.
5. See discussion in sections of this report titled "Reduce Funding, Spending, and Reporting Micromanagement" and "Establish an AID Innovation Capital Fund."
6. U.S. Congress, Senate, Committee on Foreign Relations, prepared statement, April 29, 1993.
7. P.L. 87-195, as amended.
8. Other responsibilities include: tropical forests; protection of endangered species; narcotics control; American schools and hospitals abroad; housing guarantees; Economic Support Fund implementation; promotion of democracy, restoration of peace, and justice reform; disaster assistance and rehabilitation; refugee assistance; special African and Central American development programs; promotion of U.S. land grant and other universities; and promotion of U.S. private- sector trade and business opportunities.
9. Support for East European Democracy (SEED) Act of 1989, P.L. 101- 179 (November 28, 1989), as implemented by Executive Order 12703 (February 20, 1990); FREEDOM Support Act, P.L. 102-511, Title II (October 24, 1992); and Jobs Through Exports Act of 1992, P.L. 102- 549, Title III (October 28, 1992).
10. Hamilton-Gilman report, p. 27.

11. U.S. General Accounting Office, Foreign Assistance Economic Issues, GAO/OGC-93-25TR (Washington, D.C.: GAO, December 1992), p. 8.
12. The term earmarking, as used in this report, refers to the process by which congressional restrictions are placed on how an agency is to spend appropriated funds. Funding is earmarked in different ways. Earmarking is discussed further in the section of this report titled "Reduce Funding, Spending, and Reporting Micromanagement."
13. U.S. Congress, Senate, Committee on Appropriations, Subcommittee on Foreign Operations, "Persistent Management Problems Persist at the Agency for International Development," testimony by Frank C. Conahan, May 1, 1992. See also GAO, AID Management, p. 10, and GAO, Foreign Assistance Economic Issues, pp. 4-5.
14. The Economic Support Fund (ESF) is used to provide assistance to other countries based on special economic, political, or security interests of the United States. Most ESF assistance is provided as cash grant transfers to help other countries improve their balance of payments; the rest is spent on commodity support to pay for imports of U.S. goods, and on development projects. Tarnoff, Curt, Foreign Aid: Answers to Basic Questions, Rept. No. 92-309 F (Washington, D.C.: Library of Congress, Congressional Research Service, March 25, 1992), p. CRS-2; Ferris Commission, Action Plan, p. 13; and Hellinger, et al., pp. 49-79.
15. See, for example, Nowels, Larry Q., Foreign Assistance and Congressional Debate: International Challenges, Domestic Concerns, Decisions Deferred, Rept. No. 92-371 F (Washington, D.C.: Library of Congress, Congressional Research Service, April 17, 1992), and Nowels, Larry Q., Foreign Assistance: Congressional Initiatives to Reform U.S. Foreign Aid in 1989, Rept. No. 90-236 F (Washington, D.C.: Library of Congress, Congressional Research Service, May 10, 1990).
16. Foreign policy professionals have called for such a review of this country's foreign assistance policy and programs in recent years. See, for example, Carnegie Endowment for International Peace and the Institute for International Economics, Memorandum to the President-Elect: Subject Harnessing Process to Purpose (Washington, D.C., 1992), pp. 18-19; and Ferris Commission, pp. 5, 10-11.
17. See U.S. Congress, Senate, Committee on Foreign Relations, Subcommittee on International Economic Policy, Trade, Oceans and Environment, prepared statement, July 14, 1993.
18. Interviews with AID employees.
19. U.S. Congress, House, A Bill to Authorize Appropriations for Foreign Assistance Programs, and for Other Purposes, 103rd Cong., 1st Sess., 1993, H.R. 2404, passed by the House in June 1993; and U.S. Congress, Senate, A Bill to Authorize Appropriations for Foreign Assistance Programs, and for Other Purposes, 103rd Cong., 1st Sess., 1993 (Draft).
20. Issue Brief, Foreign Aid: Clinton Administration Policy and Budget Reform Proposals, Library of Congress, Congressional Research Service (Washington, D.C.: 1993), pp. CRS-6-CRS-7. The themes of revitalizing the U.S. economy, modernizing security structures and encouraging democracy around the world will be organized around the objectives of building democracy, promoting and maintaining peace, promoting economic growth and sustainable development, addressing global problems, and providing humanitarian assistance.

21. Ibid.
22. Remarks to the Society for International Development (Washington, D.C., June 9, 1993); and Atwood statement for the U.S. Congress, Senate, Committee on Foreign Relations, Subcommittee on International Economic Policy, Trade, Oceans and Environment.
23. Ibid.
24. See, for example, proposed elements of a new foreign assistance policy contained in one pending House bill, H.R. 2404, and a proposed Senate bill to authorize appropriations for foreign assistance programs for fiscal year 1994. See also recent congressional reports: U.S. Congress, House, International Relations Act of 1993, 103rd Cong., 1st Sess. (June 1993), H. Rept. 103-126; and U.S. Congress, House, Foreign Operations, Export Financing, and Related Programs Appropriations Bill, 1994, 103rd Cong., 1st Sess. (June 1993), H. Rept. 103-125.
25. U.S. Congress, Senate, Committee on Appropriations, Subcommittee on Foreign Operations, prepared statement, May 26, 1993. Sustainable development is generally acknowledged to have become a leading principle in international development policy after the World Commission on Environment and Development chaired by Norwegian Prime Minister Gro Harlan Brundtland (known as the Brundtland Commission) featured it as a central theme of its 1987 report. The Commission defined sustainable development as a form of development that "meets the needs of the present without compromising the ability of future generations to meet their own needs." The World Commission on Environment and Development, *Our Common Future* (Oxford and New York: Oxford University Press, 1987), pp. 89, 43-66, 75-89. Considerable effort has gone into translating that definition into practical terms for action in various settings. See, for example, Toman, Michael A., "The Difficulty in Defining Sustainability," in Joel Darmstadter, ed., *Global Development and the Environment: Perspectives on Sustainability* (Washington, D.C.: Resources for the Future, 1992), pp. 15-23; Schmidheiny, Stephan, and the Business Council for Sustainable Development, *Changing Course: A Global Business Perspective on Development and the Environment* (Cambridge, MA: MIT Press, 1992), pp. 4-13; Brown, Seyom, *International Relations in a Changing Global System: Toward a Theory of the World Polity* (Boulder: Westview Press, 1992), p. 93; and Browne, Stephen, *Foreign Aid in Practice* (New York: New York University Press, 1990), pp. 39, 42, 148-151.
26. While the U.S. maintains the world's largest program of international development assistance, this country ranks next to last among developed countries in foreign assistance as a percentage of gross national product. The foreign assistance budget request for fiscal year 1994 represents only about 1.3 percent of the entire federal budget. On levels of public support, see, for example, a survey conducted for the Americans Talk Issues Foundation in December 1991, finding that 38 percent more people of those polled wanted to decrease spending for U.S. economic and humanitarian foreign aid than wanted to increase it. Kay, Alan F., Frederick T. Steeper, Hazel Henderson, Celinda Lake, and David J. Hansen, *What the American People Want in the Federal Budget*, Survey No. 18 (Washington, D.C., November 1992), p. 27; see also a poll conducted for the Rockefeller Foundation in December 1992, finding that support for U.S. foreign assistance has declined since 1986; Belden and Russonello, *Americans and Foreign Aid in the Nineties: Report of Findings from a National Survey on Foreign Economic Assistance* (Washington, D.C., February 1993), pp. 12-15; and Hamilton-Gilman report, p. 26.
27. On budget cuts, see "Clinton to Continue Foreign Aid Cuts," *Washington Post* (August 13, 1993), p. A13. See also Library of Congress, Congressional Research Service, Issue Brief, *Foreign Aid: Clinton*

Administration Policy and Budget Reform Proposals. On the administrator's commitment to scale back AID operations see, for example, Atwood remarks to the Society for International Development, and statement for the Subcommittee on International Economic Policy, Trade, Oceans and Environment.

28. See, for example, Nowels, Larry Q., Foreign Assistance: An Overview of U.S. Aid Agencies and Programs, Rept. No. 93-361 F (Washington, D.C.: Library of Congress, Congressional Research Service, March 26, 1993).

29. The House Committee on Foreign Affairs recently suggested some examples, including closing or transferring the AID export promotion office to the Department of Commerce, and transferring certain AID exchange and scholarship programs to the U.S. Information Agency.

Other suggestions included review and clarification of democracy and human rights programs engaged in by AID and other agencies. H. Rept. 103-126, p. 2.

30. Hammer, Michael, and James Champy, Reengineering the Corporation: A Manifesto for Business Revolution (New York: Harper Business, 1993), pp. 148-158; and Senge, Peter M., The Fifth Discipline: The Art & Practice of the Learning Organization (New York: Doubleday, 1990), pp. 205-232.

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# Agency for International Development

## Recommendations and Actions

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### AID02: Reduce Funding, Spending, and Reporting Micromanagement

#### Background

Major reviews of the Agency for International Development (AID) in the past five years, as well as interviews with AID employees, point to several financial, reporting, and notification mechanisms as impediments to the agency's efficiency and effectiveness. Chief among these are: (1) restrictions on funding by appropriations of program funds in one-year increments and multiple accounts, (2) earmarking of funds, and (3) external and internal reporting and notification requirements.(1)

No one disputes the need for oversight of AID to ensure that it is achieving results that advance U.S. foreign policy objectives. The tension between the executive and legislative branches inherent in our constitutional system, however, was exacerbated in the 1980s because of friction created by divided government and policy differences between the legislative and executive branches. This friction contributed to a proliferation of financial and reporting mechanisms to control and monitor agency action.(2) Changes are needed to transform executive and legislative branch control mechanisms into incentives for improved performance and accomplishment of results at AID.

**Appropriations.** With few exceptions, Congress appropriates AID's development assistance for a one-year period.(3) This appropriations funding cycle inhibits the kind of results-driven budget system envisioned by the National Performance Review (NPR) effort. AID employees indicate that the one-year cycle encourages obligating funds without adequate planning, disrupts project continuity due to uncertainties about funding availability from year to year, and reduces the agency's leverage in negotiating contracts and other agreements.(4) While Congress moved in fiscal year 1993 to consolidate most AID development assistance funding from multiple accounts into just two accounts, the consolidation of all development assistance into a single fund would improve the agency's flexibility and effectiveness by allowing it to transfer funding more quickly and efficiently to priority, high-performing projects and programs.

**Earmarking.** This practice consists of legislative restrictions on how AID can spend its appropriated funds. Funds are earmarked in different ways. These include limitations on the maximum amount of money that can be spent, specifications of minimum amounts to be spent, specific instructions on how money will be spent, and establishment of required staffing levels. Funds are also earmarked by targeting expenditures toward specific countries, projects, entities to carry out those projects, and functional accounts (e.g., environment and energy, education, microenterprise activities, and capital projects).

Funding earmarks grew markedly in AID appropriations bills during the 1980s. Earmarks have not been confined to legislation, however. Several appropriations bills were accompanied by lengthy conference

reports by congressional committees, requesting or directing the expenditure of funds in particular ways.(5) AID officials recognize that such reports do not have the force of law. Nevertheless, they feel constrained to implement requests or directions on funding allocations to try to meet Congress' goals and to avoid problems.

The most heavily earmarked account is the Economic Support Fund (ESF) category, representing approximately 25 percent of AID's program assistance budget.(6) In recent years, approximately 85 percent of ESF funding has been legislatively allocated for economic assistance to Israel and Egypt, known as the Camp David countries. In fiscal year 1991, earmarks accounted for 60 percent of AID's overall program assistance budget. While that percentage has declined somewhat in the past two fiscal years, earmarks still apply to more than 50 percent of appropriated funds for AID programs.

AID officials and outside analysts generally agree that the earmarking of funds significantly curtails the flexibility needed by the agency to accomplish its mission efficiently and effectively.(7) Earmarks direct funds to certain countries, projects, or recipients at the expense of others that may be needier or likelier to succeed. In addition, it is more difficult to exert leverage on, and enforce reasonable and prudent controls over, designated recipients of earmarked funds when they know that their funding levels are assured.

The elimination or substantial reduction of earmarks is consistent with, and would advance, an important goal of government reinvention efforts. A recent congressional task force concluded: "Removing earmarks would enable more effective Congressional oversight, because Congress could focus on program results rather than relying on earmarks and associated prohibitions, conditions and reporting requirements."(8) If enacted, the current fiscal year 1994 AID appropriations bill pending in the House of Representatives would eliminate program funding earmarks.(9)

**Reports and Notifications.** A third burden on AID operations consistently identified by agency officials and outside reviewers is the number and volume of reporting requirements imposed in foreign assistance-related legislation and legislative reports.(10) These reporting and notification requirements fall into three general categories: (1) notifications, advising Congress of actions, determinations, or other events as they occur; (2) periodic reports; and (3) one-time reports.

These directives are found in authorizing and appropriations legislation, and in the accompanying and often voluminous committee reports. While some of these reporting requirements are not legally binding, the agency feels that such directions cannot be ignored and that it must comply.

Clearly, some reports are important and necessary for congressional oversight. In the interest of reducing undue constraints on mission accomplishment, however, it should be asked: (1) whether reporting and notification requirements imposed on AID at every stage of program operations reflect an undue focus on inputs and processes, rather than on the results of agency programs and operations; and (2) whether the number of required reports, their frequency, and the resources expended in their preparation divert already-limited staff and budget resources from more productive, mission-oriented activities.

AID must submit approximately 60 reports to Congress in fiscal year 1993, divided nearly evenly between one-time and periodic reports.(11) At least 10 reports can be identified for possible elimination, based on a lack of continued utility.(12)

A larger reporting burden is imposed in connection with congressional notifications, including what are known as country notifications and technical notifications. AID sources report that the agency prepares and submits an average of 1,000 congressional notifications per year. These include notifications to

congressional committees made in advance of specified funding decisions, project changes, reprogramming decisions, and other program activities.

By law, AID must notify Congress of every proposed project obligation in excess of amounts previously justified in AID budget documents before obligating funds for these activities.(13) Notifications are sent to at least four congressional committees and must precede the obligations involved by at least 15 days. During this period, members may place holds on the proposed obligations for varying lengths of time.(14) Reasons for the holds vary and can occur as a result of factors unrelated to AID's proposed project (for example, concerns over controversial events in, or activities or policies of, the country in which the project is to occur).(15)

An estimated 35 to 50 holds are placed on obligations in any given year. The notification process costs an estimated \$185,000 and four work years of staff time each year. The office responsible for coordinating and sending reports to Congress estimates that from 1 to 11 people (and possibly more) review and clear each notification.(16) Reducing the levels of review on these reports, however, would not resolve the threshold issues of the need for the number and frequency of these notifications, and the length of the waiting period before AID can proceed to implement funding and other decisions.

A 1988 congressional study of foreign assistance reporting requirements concluded that the number of foreign aid reporting requirements could be reduced by as much as one-half through consolidation or repeal of unnecessary and obsolete requirements. The agency's Congressional Presentation (CP) report received special mention. AID reported that it spent approximately 120 work years and more than \$9 million to assemble this single report.

A consensus was found to exist among numerous legislative and executive branch officials interviewed that substantial portions of the CP could be eliminated.(17) AID has made progress since then in reducing the size and expense of the CP, but the problem is illustrative of the overall nature of the concern in this area.

In addition to the reports required to be submitted to Congress, AID officials and employees have also identified a proliferation of administrative reporting requirements and procedural directive systems as impediments to organizational efficiency and effectiveness. A mission in Africa, for example, recently compiled a list of approximately 46 reports that African field posts submit to headquarters in Washington at different reporting intervals each year.(18) Some of these reports, it should be noted, implement statutory or regulatory requirements. AID administrator J. Brian Atwood summarized the nature of the problem:

[O]ur failures in the past have produced overregulation in the present. We have spent more time on paperwork than people work. AID personnel have become more concerned with process than development. The first thought that should come to the mind of an AID project officer should not be "[H]ave I filled the forms out right?" It should be "[W]hat will this project achieve?" After that question is answered, we should then turn to accountability--and we should be accountable.(19)

The agency's Office of Inspector General (OIG) agrees that at least some of the agency's internal directives and reporting requirements have outlived their usefulness, impose costs in excess of the benefits derived, or otherwise impede the agency's effectiveness and efficiency.(20) A new AID Quality Council is coordinating an agencywide review of recurring reporting requirements, with a view toward consolidation or elimination of reports. The agency's Policy Directorate has recently undertaken a

comprehensive revision of the agency's 33-volume handbook system, which has not been substantially updated for nearly a decade.(21)

Other administrative reporting mechanisms examined by the National Performance Review include several associated with what is known as the apportionment process administered by the Office of Management and Budget (OMB). Following enactment of congressional appropriations, apportionments of funds must be made by OMB before they can be obligated by an agency. Except for ESF monies, apportionments of funds to AID are made by OMB in consultation with the agency. By law, ESF funds are allocated on a country-by-country basis by the State Department, in consultation with AID; OMB then apportions funds for obligation by AID.(22)

AID's history of substantial management problems led to the formation in 1991 of what became known as the Joint OMB-AID SWAT Team, which was tasked with a comprehensive review of the agency's operations. The resulting report by the reviewers from both agencies led to 30 recommendations covering virtually every aspect of the agency's operations.(23)

The apportionment process provides OMB with an opportunity to evaluate AID's progress toward the management reforms it committed to make after the joint review. History suggests that OMB's diligence in apportioning AID appropriations has not been misplaced. Nevertheless, progress by AID in implementing SWAT Team recommendations and other reforms (e.g., improved program planning and evaluation, information and financial management, portfolio and contract management, and a more timely obligation of funds) could enable some reduction in reporting, documentation, and attendant delays currently associated with the apportionment process.

## **Actions**

1. Funding for AID development assistance programs should be appropriated on a two-year or multiyear basis determined by reference to specific assistance needs.

This recommendation does not imply the creation of open-ended spending authority, but rather the setting of multiyear commitments corresponding to the reality of AID's development assistance program funding and project cycles. Appropriation periods can be adjusted by Congress as those circumstances change.(24)

2. AID development assistance funds should be appropriated as part of a single account.

Implementation of this recommendation could be accomplished with the submission of an AID development assistance funding request in a unified account, followed by congressional appropriation of funds in that single account category.

3. Earmarks on AID development assistance appropriations should be eliminated or reduced to allow the agency greater flexibility in responding to changing assistance needs.

The elimination or reduction of earmarks, along with establishment of a single budget category for all appropriated development assistance funds, would significantly reduce AID's management load in tracking all obligations by separate category and account, and could result in a significant reduction of in-house staff devoted to such activities. The proposed elimination of earmarks on AID appropriations for fiscal year 1994 in H.R. 2295 represents significant progress on this issue.(25)

4. Statutory reporting and notification requirements should be reduced.



Congress should reduce, consolidate, or eliminate unduly costly, burdensome, and obsolete reporting and notification requirements, with particular emphasis on the Congressional Presentation report and one-time notifications. This recommendation could be accomplished by one or more of the following measures: (1) amendment of the pertinent reporting and notification provisions in the Foreign Assistance Act of 1961, as amended, and other statutes affecting AID operations to eliminate unnecessary and outdated requirements, and to consolidate remaining requirements in a single report; (2) deletion of affected reports and notifications in new legislation recommended elsewhere in this report; (3) limitation of new reporting requirements in future authorization and appropriations acts, and in committee reports accompanying such legislation; or (4) use of computer technology to simplify the report preparation and transmittal process.(26) Reporting requirements identified for elimination in one current Senate foreign assistance reauthorization proposal should be considered as a starting point.(27)

5. The AID administrator should assure the completion of a zero-based review of all internal agency reporting requirements and procedural directives; elimination of outdated, unduly burdensome, non-cost-effective requirements; and establishment of controls over the initiation of new requirements.

AID's Policy Directorate and its new Quality Council are already making progress on this initiative. In the process, directorate officials are attempting to strengthen channels of communication with the agency OIG, which has expressed a willingness to assist AID employees in the identification of procedural impediments to the most effective and efficient accomplishment of the agency's mission.

6. AID should develop a results-driven performance measurement system capable of documenting expenditures of development assistance funds against feasible and measurable performance goals.

Reductions in earmarking, one-year appropriations, reporting requirements, and other control mechanisms should be accompanied by development of reliable and effective performance measurement indicators. Such indicators are needed to ensure the agency's accountability for its allocations of program and other funds, and to provide assurances to the President, OMB, Congress, and the public that AID programs are achieving results.(28)

## **Implications**

Implementation of the recommended measures will provide AID with much-needed flexibility and increase accountability as it moves toward the goal of becoming a more effectively and efficiently managed mission-driven, results-oriented agency.

## **Fiscal Impact**

The primary impact of these recommendations is expected to be more efficient allocation of budgetary and human resources. The fiscal impact of these recommendations cannot be estimated.

## **Endnotes**

1. See, for example, U.S. General Accounting Office, AID Management: Strategic Management Can Help AID Face Current and Future Challenges, GAO/NSIAD-92-100 (Washington, D.C.: General Accounting Office, March 1992); The President's Commission on the Management of AID Programs (the Ferris Commission), Report to the President: An Action Plan (Washington, D.C., April 1992); Joint OMB-AID SWAT Team, Improving Management at the Agency for International Development (Washington, D.C., 1992). For a discussion of the effects of one-year appropriations and earmarking on

government agencies generally, with recommendations, see the NPR Accompanying Report Mission-Driven, Results-Oriented Budgeting (Washington, D.C., September 1993). For a discussion of and recommendations on governmentwide reporting requirements, see the NPR Accompanying Report Streamlining Management Control (Washington, D.C., September 1993).

2. The American Enterprise Institute and the Brookings Institution, *Renewing Congress: A Second Report* (Washington, D.C., 1993), p. 78; Pastor, Robert A. "The President Versus Congress," in Robert J. Art and Seyom Brown, ed., *U.S. Foreign Policy: The Search For a New Role* (New York: Macmillan Publishing Co., 1993), pp. 12-13, 22; and U.S. Congress, House, Report of the Task Force on Foreign Assistance, 101st Cong., 1st Sess. (February 1989), H. Rept. 101-32 (the Hamilton-Gilman report), p. 7.

3. AID's Development Fund for Africa and Economic Support Fund accounts are funded for a two-year period; assistance to the former Soviet Union and Eastern Europe is funded on a no-year or multiyear basis, i.e., available until expended.

4. Interviews with selected AID employees (Washington, D.C., May- August 1993).

5. See, for example, U.S. Congress, Senate, Committee on Appropriations, S. Rept. 102-419, 102nd Cong., 2nd Sess., September 23, 1992.

6. The Economic Support Fund (ESF) is used to provide assistance to other countries based on special economic, political, or security interests of the United States. Most ESF assistance is provided as cash grant transfers to help other countries improve their balance of payments; the rest is spent on commodity support to pay for imports of U.S. goods, and on development projects. See Tarnoff, Curt, *Foreign Aid: Answers to Basic Questions*, Rept. No. 92-309 F (Washington, D.C.: Library of Congress, Congressional Research Service, March 25, 1992), p. CRS-2.

7. Interviews with AID employees; Ferris Commission, pp. 4, 11-12; Joint OMB-AID SWAT Team; the Hamilton-Gilman report, pp. 27, 39-40; and Hellinger, Stephen, Douglas Hellinger, and Fred M. O'Regan, *Aid for Just Development: Report on the Future of Foreign Assistance* (Boulder and London: Lynne Rienner Publishers, Inc., 1988), pp. 74- 75.

8. Hamilton-Gilman report, p. 40.

9. U.S. Congress, House, An Act Making Appropriations for Foreign Operations, Export Financing, and Related Programs for the Fiscal Year Ending September 30, 1994, and Making Supplemental Appropriations for Such Programs for the Fiscal Year Ending September 30, 1993, and for Other Purposes, 103rd Cong., 1st Sess., 1993.

10. Hamilton-Gilman report, pp. 27, 31; and interviews with AID employees.

11. Interviews with AID employees.

12. AID has identified six possible reports for elimination. See interviews with AID employees. Others are shown in a proposed congressional authorization measure (U.S. Congress, A Bill to Authorize Appropriations for Foreign Assistance Programs, and for Other Purposes, 103rd Cong., 1st Sess., 1993 [Draft]).

13. Section 634A of the Foreign Assistance Act of 1961, P.L. 87-195, as amended; and Section 522 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1993, P.L. 102-

391.

14. Holds are used under congressional procedures to permit members of Congress to delay action on pending matters for varying periods of time.

15. Interviews with AID employees.

16. Ibid.

17. Hamilton-Gilman report, p. 4.

18. Facsimile of memorandum from AID employee C. Palme to AID employee W. Saulter, October 23, 1992.

19. U.S. Congress, Senate, Committee on Foreign Relations, prepared statement, April 29, 1993.

20. Interviews with AID employees.

21. Ibid.

22. Section 531(b), P.L. 87-195; and interviews with OMB and AID employees (Washington, D.C., July-August 1993).

23. Joint OMB-AID SWAT Team.

24. See related recommendation in the NPR Accompanying Report Mission-Driven, Results-Oriented Budgeting.

25. Ibid.

26. See the NPR Accompanying Report Streamlining Management Control.

27. Proposed Senate authorization bill.

28. See related recommendations in the NPR Accompanying Report Mission-Driven, Results-Oriented Budgeting

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# Agency for International Development

## Recommendations and Actions

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### AID03: Overhaul the AID Personnel System

#### Background

Personnel management issues are consistently reported as problems in studies about the Agency for International Development (AID) and in interviews with AID staff. Complaints reflected in this NPR report concern the conflicts between the Foreign and Civil Service systems, workforce diversity, recruitment, assignment, training, evaluation, and overseas support.

AID currently maintains three distinct personnel systems to manage its direct-hire employees. These are the Foreign Service (FS), the Civil Service General Schedule (GS), and the Foreign Service National (FSN) systems. Fully incorporated into AID in 1980, the Foreign Service principally manages staff at overseas posts and senior management positions in Washington.<sup>(1)</sup> In 1980, every position in Washington was designated as either a GS or FS position. The Civil Service is used for support staff, technical experts, and some senior management positions in Washington. Except in limited circumstances, GS employees are not assigned abroad, although they can travel overseas. FSN employees are non-U.S. citizens working at overseas posts.

AID has approximately 1,700 FS employees--about 1,100 located overseas and 600 in Washington. All of AID's nearly 1,000 direct-hire FSNs serve overseas. All of AID's more than 1,500 GS employees serve in the United States. Besides its direct-hire employees in the three personnel systems, AID will employ about 4,500 personal service contractors (PSCs) in fiscal year 1993 to perform a wide range of duties, primarily overseas. These include project implementation, evaluation, monitoring, and other tasks that do not statutorily require performance by a direct-hire employee. About 10 percent of the PSC workforce consists of U.S. citizens.

Workforce management has been raised as a problem at AID in most of the major studies of the agency. The AID personnel system has been criticized as complex, costly, and unsuited to accomplishing the mission of the agency.<sup>(2)</sup> The 1992 President's Commission on the Management of AID Programs (the Ferris Commission report) summed up the situation by stating: "AID needs to change the ways it recruits, assigns, trains and develops its staff."<sup>(3)</sup>

Recent responses to a worldwide information cable sent by AID management suggest strong dissatisfaction with AID's personnel system.<sup>(4)</sup> According to one response, "The personnel system is hopelessly antiquated, slow, perverse, and unproductive." The FS evaluation system came in for special criticism, with the response from one overseas post suggesting that it needed revision to improve morale, and that "missions are almost put out of business in April/May each year in order to complete the requirements." Another post criticized the evaluation process because it is "time consuming, expensive and--most importantly--does not work." One employee suggested that staff should evaluate managers.

Another post noted the lack of minorities in decision making roles.

Dual Foreign Service/Civil Service General Schedule System. Operation of the dual FS/GS system was cited often in recent analyses of the agency and in interviews (both inside and outside AID) as a source of morale problems, management difficulties, rigidity, and wasteful bureaucracy. Important differences exist between the two systems because they are designed to fill different needs. The Foreign Service is largely an up-or-out system. Employees typically come in through the bottom, as in the military, and advance upward through the grades in an established schedule. If they remain in one class for longer than a certain period without promotion, they come up against FS time-in-class rules and are subject to separation. In the past, however, limited career extensions (LCEs) have been granted almost routinely, extending many senior employees beyond their time-in-class, further contributing to a personnel structure already criticized as top-heavy. In contrast, the Civil Service can be entered at any level through open competition, but advancement is only possible if a position at the next grade is available.

The compensation structures of the two systems differ in ways that bring them into conflict. FS employees are compensated on a rank-in-person basis rather than rank-in-job as in the Civil Service. The rank-in-person system was designed to accommodate rotational assignments. The GS system, on the other hand, is designed to focus greater levels of specialization in the workforce. The GS salary structure is based on traditional measures, like specialist skills, breadth of responsibility, and number and type of employees supervised. FS employees are promoted based on the results of an annual performance review.

These two systems often collide, especially where they coexist in the same unit. For instance, GS employees serving side-by-side with headquarters FS staff have more difficulty receiving promotions for similar work if they do not have supervisory responsibilities. They are reviewed based on different standards and systems. Conflicts have also arisen over the numbers and types of positions reserved for FS staff.(5)

The two systems have different types of probationary periods. AID career FS staff are tenured. To achieve tenure the employee must complete at least three fully successful years (of which two must be overseas) within five years, receive satisfactory proficiency in a relevant language, and be reviewed by a tenure board. Tenure boards meet twice a year. During the most recent board deliberations, 21 employees were recommended for separation and five were deferred for additional evaluation.

The Civil Service has a three-year career-conditional period, after which career status is conferred. It should be noted that AID has authority to grant non-tenured FS appointments of up to five years. The FS tenure system has been criticized for impeding the agency's ability to respond to the changing development priorities of the 1990s by protecting the interests of staff with skills less suited to new challenges.

A workable example of a unified foreign affairs personnel system exists. The Central Intelligence Agency (CIA) maintains a Civil Service-based unitary personnel system that is highly responsive to the need for flexibility in overseas assignments. The CIA assigns staff both in the United States and abroad, often in situations of extreme hardship. There are no restrictions as to geographic assignment, employees carry rank-in-person, and retirement compensation relates to months of actual field or hardship service.(6) In the Foreign Service, on the other hand, once tenure has been granted, waivers may permit the FS employee to serve exclusively in Washington and still be eligible for retirement after only 20 years of service.

**Length of Overseas Assignment.** Concerns were raised during interviews that overseas tours at AID are too short. FS employees serve two- and four-year tours, depending on the post. This assignment structure is seen as having a major negative impact on staff effectiveness, program continuity, and transfer and training costs. The current system does not realize a full return on the overhead investments (e.g., training and relocation) the agency makes in its employees.

**Foreign Service Assignment Process.** The FS assignment process was criticized as unresponsive to the needs of the agency and unfair to the employees who are subject to it. The Ferris Commission report described the informal assignment process that has developed, noting that the bulk of the assignments are negotiated without the participation of the personnel office. Critics contend that only the less desirable assignments are made according to the established guidelines.(7)

**International Development Intern Program.** AID's International Development Intern (IDI) program is a proven success. The number of positions funded each year, however, has fluctuated in response to the rise and fall of AID staffing funds. The graduates of the IDI program are a "Who's Who" of successful AID managers. Given the nationwide trend to reduce middle management positions, the historical pathway for advancement is being closed off to many employees. The IDI program is an effective vehicle for improving workplace diversity and is a reliable source of managerial talent. This program is an effective way for AID to enrich its workforce.

**Interdisciplinary Rotations.** Mandatory, interdisciplinary rotation (e.g., program operations to administration, implementation to evaluation, or headquarters to field) of junior officers is common in the foreign affairs and military communities. AID is a notable exception, partly because many AID officers come in at mid-career level. Because of a new agency emphasis on results-based performance measurements and recent congressional legislative initiatives in the area of mandatory performance standards and strategic planning, cross-training in evaluation methodology, resource allocation, and management is an essential element in future career development. Rotations offering training in these areas should be mandatory for promotion purposes and seen as a normal part of career development.

**Use of Tandem Couples.** Overcoming historical problems with dual assignments (assignments where married FS officers serve at the same post) will become more important in the deficit reduction environment of the 1990s. Overhead savings (e.g., storage of household effects, housing expenses, transportation of things, travel and education for dependents, family medical care) can be substantial by hiring couples. Liberalizing hiring of spouses at post is an important step forward in attracting professional couples and supporting the professional and personal interests of FS families.

Federal law and regulation are quite stringent about nepotism. Assignments must be made carefully so that spouses are not operationally accountable to each other, or serve in positions where normal separation of duties is called for because of potential for financial or other conflicts of interest. Experience has shown that smaller country programs tend not to allow the required separation.

**Overseas Compensation.** Overseas compensation, tied largely to the Foreign Service Act, has been criticized as too generous. FS staff and U.S. contractors are eligible for U.S. holidays, local holidays, annual leave, home leave, and compensation for rest and recuperation (R&R) trips in selected posts (staff assigned in both Barbados and Bangkok are, for example, eligible for R&R away from these posts). In addition, staff are eligible for up to 25 percent pay differential based on hardship and cost of living. In some countries, they receive commissary privileges or shipment of consumables--goods purchased in the

United States and shipped at government expense to post for the employee's use.

In 1989, GAO reviewed State Department plans to augment housing standards for FS officers. The study concluded that for State Department employees alone housing costs would increase by at least \$10.9 million--much more if other foreign affairs agencies followed suit. The study noted that many government employees were living in housing that exceeded current standards.(8)

**Training.** Deficiencies in training are mentioned in interviews and recent management studies of AID. The 1992 Joint OMB-AID SWAT Team report on AID operations suggested that project management was the greatest weakness in training.(9) The Ferris Commission noted the ad hoc nature of training at AID and the low commitment of resources.(10) The agency has begun pilot training programs in project and contract management, with a view toward certifying project officers beginning in fiscal year 1995. The agency also has a vigorous language training program and should continue to emphasize language proficiency.

**Performance Evaluation.** In 1992, the Ferris Commission criticized the use of both the FS and the GS evaluation systems.(11) The Ferris Commission report indicated serious problems with the functioning of the personnel evaluation system, particularly in the Foreign Service, stating: "Because of AID's collegial culture, a system has evolved over time where each individual employee manages his/her assignments, training, career, and frequently even drafts input into annual performance ratings. GS employees tend to be ignored or little involved in career development and training."(12) The FS appraisal system is also criticized for not being linked to accomplishment of the goals of the agency.

Awards are given liberally at AID. The Joint OMB-AID SWAT Team reported that:

In fiscal year 1991, the agency (AID) paid \$2.4 million in performance based incentive awards to about 1,700 employees. In that year, 43 percent of the Foreign Service staff received awards and 59 percent of the Civil Service employees received awards. In the same year, AID separated only five people for substandard performance.(13)

AID personnel office staff recently said that 95 percent of AID Foreign Service employees received either outstanding or superior performance ratings in fiscal year 1992.

**Performance Incentives.** Although not unique in this regard among federal agencies, AID employees do not have routine, predictable jobs. Rather, many employees are problem solvers, confronting new and complex development problems and then, by applying a mix of information and financial resources, solve, or at least ameliorate them. Risk taking is inherent in this type of work, and because of that fact, failures are to be anticipated. Conducting meaningful performance appraisals of AID employees means acknowledging the tension between process and product. Measuring only process, however, means that performance appraisal focus is only on inputs, not on outcomes.

The AID Agency Incentives Project (conducted between July and December 1991) represented a positive effort by the agency to revitalize its employee incentives systems by acknowledging the high level of service motivation in most AID employees, shifting evaluation focus to project results, giving managers greater autonomy over incentive resources, and supporting employees with a refined statement of agency mission.

According to the project report, many employees are "frustrated by obstacles such as a lack of clear direction, cumbersome procedures, outmoded systems and facilities, and a poorly defined career path that

fails to provide opportunities and rewards in a transparent, predictable and equitable manner."(14) The report criticized the awards process because the awards systems are "overly centralized, the process is less than transparent, and rewards are not made in a timely manner and are not adequately tied to performance."(15) The suggestion was made that "to be effective, the process must be decentralized, timely, equitable, and based to an increased extent on peer and subordinate input."(16) All of these steps are consistent with the basic principles of reinvention.

## **Actions**

AID needs to determine the optimal personnel system that will contribute to the achievement of the agency's basic mission and clear priorities. The new system should ensure improvements of the current mixed systems in the following areas:

1. AID should operationally integrate all its human resource management systems, including FSN and PSC staffs, as well as FS and GS employees.

The AID Administrator should select the approach that is most consistent with the requirements of the agency.(17)

2. AID should reinvigorate the International Development Intern (IDI) Program.

AID should support this source of managerial talent and workplace diversity by ensuring stable funding for the program and including IDI rotations in agency workforce planning.

3. AID should ensure that the lengths of overseas assignments are logically related to the nature of the work performed by AID personnel.

In many cases, this will involve lengthening tours beyond the current two- to four-year period. Its net effect should be to better leverage experience gained in individual countries.

4. AID should ensure that junior officers develop management and administrative skills as part of their career development.

5. AID should invest in more training in project implementation, contract administration, financial management, and foreign language proficiency.

6. AID should encourage rotational assignments in and out of the Office of the Inspector General (OIG).

Staff from the OIG should be allowed to take assignments as project managers. Also, the agency should facilitate rotational assignments for program staff through the OIG. AID management should take measures to improve the relationship between agency managers and the OIG.

7. AID should restructure the performance review and employee incentive programs to link individual performance to organizational performance.

8. The AID Administrator should enforce the terms of the up-or-out regulations and begin reducing the excess senior management at the agency.

The Administrator should curtail the routine granting of LCE waivers to the up-or-out regulations.

9. AID should integrate qualified spouses of overseas couples into the assignment process and cultivate them as part of the overseas workforce.(18)



Assignments should be made carefully so as not to violate federal law and regulations regarding nepotism.

10. AID should initiate an interagency review of FS benefit policies among the various agencies using FS employees.

Areas for scrutiny should include but not be limited to leave policies, pay differentials, rest and recuperation policies, and housing standards.

## **Implications**

An operationally unified personnel system will increase the effectiveness and the flexibility of the organization. It will allow selection of technically trained staff available for field service based on immediate competence, thereby reducing the time and cost of recruitment and training. Headquarters and field staff can be rotated at will, increasing opportunities to target skills at appropriate country missions.

A unified system will be more efficient to administer than the current system. Review of the overseas compensation package will show possible cost savings in areas like housing standards and differential pay. Enforcing the terms of the up-or-out regulations will make room for younger staff, facilitate improvements in workplace diversity, and allow expansion of the IDI program.

Increasing the tour length will enhance the effectiveness of the program staff at post by giving them a longer opportunity to learn about and focus on the specific problems of a country. A longer commitment to a particular country will improve project continuity and create an incentive to more carefully consider overseas assignments. Encouraging a more family-friendly overseas work environment will make more cost-effective tandem couple assignments possible.

## **Fiscal Impact**

The estimated costs (including overhead) to place one AID staff person in the field range from \$150,000 to \$300,000 per year exclusive of salary. (The direct costs are estimated at \$60,000 to \$105,000 per year.) AID personnel are paid up to 25 percent pay differential for overseas assignments in hardship posts. Training costs will be reduced by rotating formerly GS employees or previously language-trained professionals out into the field. Increasing normal tour length will reduce the costs associated with relocating staff. Reducing the number of highly graded employees on limited career extensions will lower salary expenses. The actual fiscal savings associated with these changes, however, depend on their timing and nature and cannot be estimated at this time.

## **Endnotes**

1. The formal designation of AID positions as Foreign Service or Civil Service took place in 1979, in response to an amendment of Section 401 of the International Development and Food Assistance Act of 1978. This act required the President to submit to Congress regulations establishing a unified personnel system. A task force was assembled and charged with the responsibility of determining the correct category for each position. The determinations were to be made based primarily on the requirement of specific knowledge or experience related to the overseas development process. On May 1, 1979, President Carter submitted regulations to Congress; those regulations became effective on October 1, 1979. The regulations provide that a position in AID-Washington may be designated as a GS position, rather than a Foreign Service position, only if (1) the position is primarily of a clerical, administrative, or

program support character and can be performed without significant overseas experience or understanding of the overseas development process; or (2) it requires such continuity and specialized knowledge as to make it impractical to assign the incumbent overseas.

2. From an unpublished AID working document, dated April 16, 1992.

3. The President's Commission on the Management of AID Programs (the Ferris Commission), Action Plan--Working Draft #1 (Washington, D.C., March 2, 1992), p. 10. This theme is elaborated in The President's Commission on the Management of AID Programs, A Progress Report (Washington, D.C., September 30, 1992).

4. AID cable 143458 requested field perspectives on AID's goals and priorities.

5. The process of identifying FS and GS positions was contested by the American Foreign Service Association (AFSA). The union pressed for greater representation in offices originally designated as having primarily GS employees. AFSA objected, for example, in an open letter to Congressman David Obey dated December 10, 1979, about a 10 percent loophole that would allow the administrator to assign GS employees into FS slots. The letter said: "AFSA never liked the ten percent exception, which by definition allows not fully qualified personnel to be assigned to Foreign Service-designated positions and naturally reduces assignment opportunities for Foreign Service personnel."

6. The Peace Corps compensation structure for overseas professional staff is worthy of note. Peace Corps staff interact with ministry officials like their AID colleagues, and are represented on the country team. They receive no hardship pay differentials, do not live in diplomatic-style representational housing, and receive no rest recuperation allowances.

7. Ferris Commission, Action Plan, p. 11.

8. See U.S. General Accounting Office, State Department: Proposed Overseas Housing Standards Not Justified, GAO/NSIAD-90-17 (Washington, D.C.: General Accounting Office, December 1989).

9. Joint OMB-AID SWAT Team, Improving Management at the Agency for International Development (Washington, D.C., 1992), p. 8.

10. Ferris Commission, Action Plan, p. 11.

11. There are actually six different types of employee groups covered by the employee incentive program at AID: Senior Executive Service (SES); Senior Foreign Service (SFS); Civil Service Merit Pay (GM); Civil Service General Schedule (GS); Foreign Service (FS); and Foreign Service National (FSN).

12. Ferris Commission, Action Plan, p. 10.

13. Joint OMB-AID SWAT Team, p. 6.

14. AID Incentives Project, Reforming the Incentives System (Washington, D.C., January 1992), p. 4.

15. Ibid., p. 16.

16. Ibid., p. 4.

17. Two potential approaches are to: (1) create a unified personnel system based on best practices from other agencies (the Central Intelligence Agency personnel system is a useful model); or (2) break down

barriers wherever possible between the two systems. With respect to the second option, AID management can make better use of noncareer, time-limited FS appointments and excursion tours for GS employees wanting to serve abroad. The agency can reevaluate the current mix of designated FS and GS positions and identify positions in headquarters as open for both FS and GS employees unless there is a clear reason for them to be reserved for employees of one service. Grade banding (reducing the number of grades to three or four with greater ranges of salaries) for GS jobs would help bring compensation in line with FS compensation.

18. Two options for AID are: (1) to secure authority to waive full- time equivalent (FTE) limits for accompanying spouses; or (2) in lieu of the first option, AID should secure authority to count as service toward retirement the time spent accompanying (in leave without pay [LWOP] status) the AID-employed. This time could be counted as either equal to time gained from regular service or, more likely, as a fraction of the time gained from regular employment.

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# Agency for International Development

## Recommendations and Actions

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### **AID04: Manage AID Employees and Consultants as a Unified Workforce**

#### **Background**

The Agency for International Development (AID) has increasingly relied on personal service contractors (PSCs) to manage its assistance activities. Restricting staffing resources has contributed to deterioration of AID's ability to manage itself and its programs by shifting the duties of AID project officers away from hands-on project management into process management (e.g., preparing proposals and managing contracts).

The agency is being forced to shed, through attrition, much of its program implementation expertise, with a resultant lack of continuity in program administration. In a downward spiral, AID managers are increasingly preoccupied with contract management and lose touch with the reality of field work, further diminishing their effectiveness in overseeing the performance of contractors. Although the direct-hire workforce has declined, the increase in PSC levels has more than made up for the direct-hire decrease.

AID has about 1,700 Foreign Service employees, approximately 1,100 overseas and 600 in Washington; nearly 1,000 direct-hire Foreign Service Nationals overseas; and about 1,500 Civil Service employees in Washington. Besides its direct-hire employees, AID will employ about 4,500 personal service contractors (PSCs) in fiscal year 1993. About one percent of PSCs served in Washington in 1992 to support central programs and the rapid expansion of AID program activities into the former Soviet Union; the balance served abroad. Normally, authority to employ PSCs is granted only for contractors working overseas. About 10 percent of the PSCs are U.S. citizens.

The President's Commission on the Management of AID Programs (the Ferris Commission) noted AID's heavy reliance on contractors to carry out increasing amounts of project design and service delivery. The commission concluded that "a major factor which makes human resource management most difficult in AID is that external parties determine the annual operating expense funds and career personnel ceilings AID must adhere to without reference to the program to be carried out."<sup>(1)</sup> This refers to the separate operating expense appropriation from Congress and the full-time equivalent (FTE) ceilings imposed on agencies by the Office of Management and Budget (OMB).<sup>(2)</sup> Conflicts have existed between AID management's vision of the agency's overseas structure and the visions of Congress and OMB.

Declining levels of operating expense funds and FTEs have changed the role and makeup of AID's overseas workforce. In a constrained resource environment, the decision to turn to PSCs is a logical one for program managers. PSCs provide a flexible alternative to direct-hire employees, and are especially useful for quickly changing the workforce skill balance to react to evolving requirements. PSCs, doing much the same work that a direct-hire employee does, can be charged to program funds, rather than more

tightly controlled operating expense funds. Direct-hire employees cannot have their salaries charged to program accounts. Consequently, among program managers, there is a movement away from the implementation of development activities to the management and monitoring of contracts.

According to the General Accounting Office (GAO), "Although overseas U.S. direct-hire employees spent 32 percent of their work years on project management, their responsibilities increasingly involved managing and monitoring contractors, rather than the technical aspects of project implementation. Accordingly, missions and overseas offices place great reliance on foreign national direct-hires and PSC to manage day-to-day project implementation."(3)

In fiscal year 1990, more than two-thirds of AID's overseas work years (totaling approximately 8,000 years) were expended by American and foreign national PSCs, who are not separately identified and reported to Congress. Foreign national PSCs made up 60 percent of the overseas workforce in 1990, followed by 15 percent for American direct hires, 12 percent for foreign national direct hires, and 13 percent for American PSCs.(4)

The reductions in direct-hire employee staffing have not been evenly distributed. According to the Ferris Commission report:

The continuing reductions in direct-hire levels required by [OMB] have hit the field missions the hardest. During the period FY '85-FY '89, U.S. direct-hire staff decreased by 2.6 percent while direct-hire staff overseas decreased by 14.5 percent. This occurred in the face of [Inspector General and General Accounting Office] criticisms that AID did not have sufficient project management in the field.(5)

AID determined those specific staffing reductions according to its own internal priorities.

The personnel system has not responded to the need for staff with training or experience in contract management.(6) GAO indicated that AID has not adjusted its culture, training, and personnel practices to the increased use of contractors to deliver services, noting that large numbers of AID employees consider contract management to be a low priority, despite the fact that the bulk of project officers' responsibilities increasingly revolve around contract development and management. GAO also noted problems with supervision of overseas contractors and data collection concerning the number and nature of personal service contracts.(7)

Currently, AID budgets salaries for direct-hire staff out of a central agency pool and assigns FTE levels to each operational unit. Budgeting salaries out of a central fund does not create incentives for managers to factor payroll costs into their planning or to consider potential savings when hiring. Giving line managers increased control over staffing resources is an important reinvention principle.(8) Managing the total AID workforce--direct hires as well as PSCs--through the budgets of line managers is the only way to effectively control the size of the workforce.

Relaxing FTE restrictions may not be the only action required to realign the AID workforce. A critical related issue is that Congress appropriates funds separately for operating expenses, the account from which direct-hire employees are paid. Reductions in AID's operating expense budget have recently kept the agency from using its full allocation of FTEs. Contractors can be paid out of program money because their work is generally tied directly to project implementation.

The proposal to grant line managers more direct control over staffing resources is written with the presumption that AID is already concentrating its overseas staffing resources by phasing out some

programs and consolidating some services in regional offices. If these changes were not already underway, a further recommendation would involve using program money to fund direct-hire positions where legitimate direct program oversight responsibility exists.

The following actions should not be initiated until AID has produced a thorough budget and policy analysis and has put in place the reporting and monitoring systems to ensure accomplishment of its mission.

## **Actions**

1. AID should vigorously explore opportunities to remove staffing restrictions and allocate operating expense salary resources to individual managers, rather than budgeting and managing funds centrally.

This should include (to the extent feasible given governmentwide classification constraints) the salary and benefits portions of the operating expenses. Both actions must be taken concurrently to fully implement the proposal. To the extent possible, pilot efforts should be initiated to enable line managers to manage staffing tied to resources rather than to work years. Managers should be rewarded for using staff more creatively to reduce costs.

2. AID should put systems in place to accurately monitor employee work years for both direct-hire employees and PSCs.

Staffing analysis should include the total AID workforce, not just direct-hire employees. AID should thoroughly understand the real number of work years required to carry out its programs and be prepared to report that information to OMB and Congress.

3. AID should undertake a full review of the impact of its policies and practices concerning use of PSCs.

Such a review should address the trade-offs between accountability and the need for staffing flexibility, and whether it is not more beneficial to define accountability as assessment of project and program impact rather than contract micromanagement.

## **Implications**

Providing line managers more control over their total budget resources will create incentives for more efficient operation. Because of the administration's commitment to reduce the federal workforce, the combined totals of PSCs and direct-hire staff must be monitored carefully. Also, the multiple pay plans and retirement systems, as well as the high proportion of total operating expenses represented by salaries and benefits, require very close monitoring to avoid exceeding the amount budgeted.

## **Fiscal Impact**

The fiscal implications cannot be determined. Experience has shown, however, that giving line managers control of personnel resources often yields opportunities to reprogram salary money into staff development or other administrative support areas. By considering both the direct-hire and PSC workforce, reductions should be made in the total workforce size. The precise fiscal impact of the recommendation, however, cannot be estimated.

## **Endnotes**

1. The President's Commission on the Management of AID Programs (the Ferris Commission), Action

Plan--Working Draft #1 (Washington, D.C., March 2, 1992), p. 12.

2. A full-time equivalent (FTE) is generally calculated as 2,080 hours, or one person/year of service. FTEs are used to manage the number of federal employees throughout the government. The FTE system applies only to direct-hire employees.
  3. U.S. General Accounting Office, Foreign Assistance: A Profile of the Agency for International Development (Washington, D.C., General Accounting Office (GAO), April 1992), p. 5.
  4. Ibid.
  5. Ferris Commission, Action Plan, p. 5.
  6. See U.S. General Accounting Office, Foreign Assistance: AID Can Improve Its Management and Oversight of Country Contracts, GAO/NSIAD- 91-108 (Washington, D.C.: GAO, May 29, 1991); U.S. General Accounting Office, Foreign Assistance: AID Can Improve Its Management of Overseas Contracting, NSIAD-91-31 (Washington, D.C.: GAO, October 1990); U.S. General Accounting Office, Foreign Economic Assistance: Better Controls Needed On Property Accountability and Contract Close Outs, GAO/NSIAD-90-67 (Washington, D.C.: GAO, January 22, 1990); and Joint OMB-AID SWAT Team, Improving Management at the Agency for International Development (Washington, D.C., 1992).
  7. See U.S. General Accounting Office, Foreign Assistance: AID's Use of Personal Services Contracts Overseas, NSIAD-91-237 (Washington D.C.: GAO, September 13, 1991).
  8. See the NPR Accompanying Report Streamlining Management Control (Washington, D.C., September 1993).
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# Agency for International Development

## Recommendations and Actions

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### AID05: Establish an AID Innovation Capital Fund

#### Background

The Agency for International Development (AID) must significantly improve its information management capability to adjust to reduced funding levels and a field presence restructured in response to the end of the Cold War. Reductions in the level of operating expense funds between fiscal years 1993 and 1994 make it difficult, however, for AID to reengineer its processes. Without capital funding for information systems development, AID will be hindered in meeting its reporting requirements and empowering managers with useful project information. AID must invest in order to build its capacity to accomplish its mission.

**Information Management Deficiencies.** AID has been widely criticized for deficiencies in its information management. The agency's systems are considered antiquated and unintegrated and consequently do not support management decision making. The accounting system cannot comply with some federal accounting standards. Layers of redundancy exist in the current system structures. Management improvements proposed by various studies conducted over the last several years regularly involve the application of new information technology as integral parts of the corrective actions.

Deficiencies in both financial accounting and program information processing have combined to exacerbate AID's resource management problems. Financial management systems and operations in the agency have been reported by AID as high-risk material weaknesses under the Federal Managers' Financial Integrity Act since 1988.(1) The General Accounting Office (GAO) has criticized AID for its lack of effective funds control. GAO noted the proliferation of unintegrated systems, identifying more than 100. One core criticism has been that the financial accounting and control system and the mission accounting and control systems are not in conformance with government-wide accounting standards.(2) GAO recommended that AID develop a comprehensive business plan, centralize information resources management (IRM) leadership, incorporate IRM planning into agency strategic planning and resource allocation processes, develop system standards, educate agency decision makers on information initiatives, and complete initiatives to identify information management requirements.(3)

**Unintegrated Reporting.** The Joint OMB-AID SWAT Team, which comprised analysts from both agencies, reported that:

AID cannot assemble an "official" portrait of AID's large, diverse field activity portfolio because the agency's information systems lack essential data, are not coordinated, and do not collect information in a consistent manner.

The report continued:



AID uses many automated and manual systems to monitor field activity. AID's systems are not integrated, operate on older proprietary computer technologies, and are often duplicate and overlapping. This leads to inconsistent, inaccurate and incomplete reporting that managers frequently do not trust.(4)

During the National Performance Review (NPR) interview process, criticism was frequently expressed regarding the decentralized management structure that had developed at AID and an apparent failure by senior management to exert centralized policy control over automation initiatives. Recent responses to a worldwide AID request for comments indicated a strong field concern about the number and obvious duplication of headquarters reporting requirements.(5)

**Consolidating Data.** Corporate data sharing (centralized data shared by the entire agency) would serve to consolidate reporting and make higher quality and more comprehensive information available faster to both headquarters and field staff. Until AID has the telecommunications capability to provide connectivity with all of the field missions, the agency automation systems will be operating in a mixed mode, with some information coming in electronically and some by incompatible diskette requiring re-entry in Washington--a process that substantially increases the likelihood for data error.(6)

**AID Information Systems Plan.** AID has begun to respond to the criticisms. The agency has completed a comprehensive information systems plan (ISP) geared toward integrating the basic financial, procurement, personnel, and program management functions of the agency by sharing data electronically across office boundaries throughout the agency. A comprehensive business process reengineering initiative is under way as part of the ISP process. This ISP has been favorably reviewed by General Services Administration (GSA). The GSA team briefed AID officials, OMB financial and technical analysts, and NPR staff in June 1993 regarding the outcome of its review. The ISP was seen as technically sound but ambitious, given the lack of resources available to carry it out.

AID has actively pursued implementation of the Army Corps of Engineers Financial Management System (CEFMS) to replace AID's current accounting system. CEFMS was selected by AID over off-the-shelf software because AID personnel believed it was: (1) from an agency with project management requirements similar to AID, and hence about 70 percent compatible without modification; and (2) available without licensing fees. AID will have to modify either type of software to suit its specialized requirements. AID contends that commercial software will require much higher levels of costly modification for full implementation. The system is currently undergoing extensive testing at AID. The new system is based on establishing centralized corporate data sharing and relating resources to program measures. AID has provided briefings on its findings to the departments of State, Agriculture, and Commerce, and the United States Information Agency.

**Financial Constraints.** Upgrading information management (along with other capital-intensive innovations) at AID has been seriously impeded by rapid expansion of the agency into the countries of the former Soviet Union without program reductions elsewhere. It has also been affected by constraints on the operational expenses account. These two situations have strained AID's ability to put its automation infrastructure in place. AID has requested funding for automation initiatives every year for three years and has received only partial funding. AID has limited authority, with OMB approval, to reprogram some project money into the operational expenses account. Such a transfer has been authorized by OMB and could be expanded with cost analysis by AID.

**Funding Structures.** Increasingly common in state and local governments, innovation funds allow organizations to invest in capital intensive information management hardware, training, or other

infrastructure required to fundamentally reengineer work processes. As in the private sector, reengineering business processes depends on both the application of the right amount of capital investment at the right time and a measurable return on investment. A good example for AID would be development of a paperless travel management system, which would cost money to implement but would yield substantial savings in reduced staff-time requirements. Opportunities like this exist throughout the agency. One or more of the following approaches could provide a source of innovation funds for AID, if legislative and funding issues can be resolved:

--- Cost savings could be retained in an innovation fund account and allocated by the agency for individual projects.(7) This has the advantage of creating an incentive for managers to save resources for innovation purchases. It has the disadvantages of legal restrictions (e.g., the ability to carry savings across fiscal years) and the long wait for enough cash to accumulate so that the innovation would have a substantial impact. AID will have difficulty meeting fiscal year 1994 needs given the operating expenses reduction from fiscal year 1993 that the agency will be absorbing. The likelihood of operating expense funds becoming available is slim.

--- An innovation fund could be established within normal budget authority by making across-the-board cuts and replenishing depleted funds with savings realized by the new IRM efficiencies.(8) This model has the advantages of speed and simplicity, plus the incentive of reinvesting savings. In AID's case, this approach may be difficult, however, because across-the-board cuts have already been made, and the scale of funding needed to accomplish reengineering would require more capital than might be available.

--- Funds could be borrowed from program account(s) and paid back with interest. This approach has the advantage of simplicity and provides an incentive to create savings. It also offers the additional benefit of reversing the normal flow of funds from the program accounts into the administrative accounts. This action, however, would require a presidential determination and congressional consultations. Absent legislation, such funds would remain available only for a single year. AID has limited authority to shift program funds to cover operating expenses.

--- Funds could be requested in a separate appropriation or an emergency supplemental to provide seed money for a capital fund. The appropriation should preferably be for more than one year. This type of fund would be replenished with interest through payments from the end users of the innovation. If funded from the foreign operations account, the Budget Act would require off-setting reductions in other AID accounts. This suggests the need for a governmentwide innovation account that is not credited only against the foreign operations account.

**Repayment to the Fund.** Money advanced to pay for an innovation should be considered as a capital investment loan that must be repaid. A request should be accompanied by a comprehensive rate of return analysis that demonstrates whether investment in capital information technology will reduce future operating costs and yield a positive return.

The lenders, in this case Congress and OMB, need to have assurance that the resources will not simply fall into the general operating account and dissipate. Funds made available for capital projects must not be diluted. Objectives must be clear and progress measurable. A clear repayment structure must be agreed upon at the beginning, reflecting the useful life of the innovation, and any policy-related conditions must be laid out unambiguously. Ideally, the repayment should originate with the end users themselves based on actual use of the innovation.

## Actions

1. AID should work with OMB and Congress to establish a revolving capital investment fund.

In AID's case, given the current financial constraints under which the agency is operating, a separate appropriation or an emergency supplemental seems best. The specifics of any funding arrangement must be agreed upon by the parties, but several general principles apply. To begin realizing savings, sufficient funding authority must be established to substantially implement the innovation or capital project. The investment capital fund should be established in a separate appropriation, which would be offset against some portion of AID's current information management funding levels and would be accounted for over several fiscal years. AID should request authority from OMB and Congress to replenish the fund from savings in operating expenses and program accounts achieved by eliminating obsolete systems and other management improvements. Payments against the innovation loan should be subtracted directly from AID's appropriation. Savings realized by the innovation should be available for reprogramming by the AID administrator.

2. AID should target sound projects from the Information Systems Plan for funding.

The agency's focus should be on: (1) agencywide data sharing through improved connectivity, (2) the financial management system, and (3) the automated program management system. These are the areas that have either been subjected to the majority of the criticisms or have the greatest likelihood of success. This would demonstrate the utility of the new technology, build faith in outside observers regarding the agency's ability to correct internal problems, and improve the management of the agency.

3. AID should conduct a thorough cost-benefit analysis of any proposed capital expenditure.

Congress and OMB must be satisfied that a proposed capital expenditure will produce a positive benefit justifying its cost. Accomplishing a fundamental change in the way that an agency does business, using unproven technology with borrowed funds, is a proposition that requires a high level of confidence from the participants.

4. AID should obtain customer input during business process reengineering.

AID has a good but tenuous start on analyzing its business processes. Key to the success of this endeavor is the need to bring those who will be using the systems into the design process. In AID's case these customers are all over the globe. This critical process cannot be cut short, and will require a commitment of resources from the innovation fund to ensure adequate participation of all customers, particularly overseas missions. The systems implemented should serve both the user at the country mission level and the managers in Washington. There must be incentives for each user to support the system. Focus should be on the three areas outlined in the second recommendation.

5. Implementation of the Army Corps of Engineers Financial Management System (CEFMS) should be expedited.

This system has been made available to AID as a solution to its project-oriented financial management systems requirements. It is viewed as an alternative to more costly private sector off-the-shelf systems. Tests are underway to determine modifications necessary to meet AID and core financial system requirements. OMB has recommended to GSA that a waiver under OMB circular A-127 be granted, to permit AID to acquire CEFMS, if AID meets several specific OMB-imposed conditions.

## **Implications**

The recently completed information systems plan is a large step forward for AID, but more than a good plan will be required to gain the confidence of the agency's critics. The recommendations will result in quicker and more comprehensive implementation of AID's information systems. The financial decision making on these substantial capital expenditures will be made more transparent, and the return on these investments will be better understood and documented. With competent business process reengineering, work will be performed more efficiently and be better understood by both management and those at the implementation level.

## **Fiscal Impact**

A thorough reengineering of management systems has the potential for creating substantial operational savings; however, these savings cannot be estimated at this time.

## **Endnotes**

1. Agency for International Development, Federal Managers' Financial Integrity Act Report (Washington, D.C., December 22, 1992), p. 6.
2. See U.S. General Accounting Office (GAO), Foreign Economic Assistance: Better Controls Needed Over Property Accountability and Contract Close Outs, GAO/NSIAD 90-67 (Washington, D.C.: GAO, January 22, 1990); U.S. General Accounting Office, Foreign Aid: Problems and Issues Affecting Economic Assistance, GAO/NSIAD 89-61BR (Washington, D.C.: GAO, December 30, 1988); U.S. General Accounting Office, Foreign Assistance: Funds Obligated Remain Unspent for Years, GAO/NSIAD 91-123 (Washington, D.C.: GAO, April 9, 1991); U.S. General Accounting Office, AID Management: Strategic Management Can Help AID Face Current and Future Challenges, GAO/NSIAD 92-100 (Washington, D.C.: GAO, March 1992); U.S. General Accounting Office, Foreign Assistance: A Profile of the Agency for International Development, GAO/NSIAD 92-148 (Washington, D.C.: GAO, April 1992). See also, U.S. Congress, House, Committee on Foreign Affairs, Background Materials on Foreign Assistance (February 1989); and The President's Commission on the Management of AID Programs (the Ferris Commission), Report to the President: An Action Plan (Washington, D.C., April 1992).
3. See U.S. General Accounting Office, Information Resources Management: Initial Steps Taken But More Improvements Needed in AID's IRM Program, IMTEC-92-64 (Washington, D.C.: GAO, September 29, 1992).
4. Joint OMB-AID SWAT Team, Improving Management at the Agency for International Development (Washington, D.C., 1992), p. 12.
5. AID cable 143458 requested field perspectives on AID's goals and priorities.
6. Agency for International Development, Action Plan for Implementing the Recommendations of the Joint OMB-AID SWAT Team (August 31, 1992), p. 11.
7. A useful example is the Treasury Department's Working Capital Fund, which is used primarily for information resource purchases. The Treasury operating manual is called Management Plan for Information Systems TD P 84-02.

8. The Department of Commerce operates the Commerce Pioneer Fund, which makes cash grants of up to \$50,000 to finance innovations and productivity improvement projects. The funding source is an annual appropriation set-aside.

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# Agency for International Development

## Recommendations and Actions

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# AID06: Reengineer Management of AID Projects and Programs

## Background

The President's fiscal year 1994 international affairs budget totals about \$21.9 billion, of which \$6.8 billion is requested for the Agency for International Development (AID).(1) Much of AID's budget is spent on programs and projects that range in complexity from a single training workshop to developing financial systems in a foreign country's government. AID funds approximately 2,000 projects annually in more than 100 countries.

Through the years, AID has shifted its focus from the funding of discrete projects to an emphasis on comprehensive programs and increased use of what AID calls non-project assistance, which promotes broad-based economic and policy reforms in developing countries. This portion of the report will focus on what AID traditionally has called the project management system. However, it also has wide application to AID's programs and non-project activities.

Although AID headquarters in Washington, D.C., plays an active role in project management, AID's field offices or missions have primary responsibility. A mission is based in the foreign country that receives AID assistance. AID refers to these foreign countries as host countries. Generally, an AID mission funds a development project to respond to a specific problem within the host country, although funds sometimes are earmarked by Congress for a particular country, sector, or activity.

Since a major portion of the U.S. foreign assistance budget is specifically targeted to the goal of alleviating poverty in developing countries, the participation of the poor in these countries in AID projects is critical for project success. A successful project is defined as a sustainable one that not only achieves its objectives, but also is continued by the intended beneficiary after AID funding terminates. Therefore, project sustainability is largely contingent on beneficiary support.

Congress also recognized the important role that project beneficiaries play in the development process. In 1966, Congress mandated through Title IX of the Foreign Assistance Act that priority "be placed on assuring maximum participation in the task of economic development by the people of the developing countries."(2) The Foreign Assistance Act of 1973 advocated "self-help efforts . . . and the involvement of the people in the development process through democratic participation."(3) In 1975, subsequent legislation provided that "greatest emphasis . . . be placed on countries and activities that effectively involve the poor in development."(4)

Although AID understands the linkage between customer involvement and project sustainability, the current project management system can prevent AID from fulfilling its congressional mandate in this

area.(5) As a result, many AID projects are developed that either do not adequately serve AID's customers or lack the necessary customer commitment. Therefore, such projects may not continue once AID funding terminates. Based on an extensive review of the literature and interviews with AID staff and other development specialists, several problems in the way that AID's project management process is structured have been identified. These problems seriously constrain the ability of AID to respond to the needs of the poor in developing countries.

Recent reports have highlighted numerous problems with AID structures and procedures that hinder the agency's ability to achieve results. The project management cycle generally involves seven phases: problem identification, project design and negotiation, obligation of funds, implementation, evaluation, project redesign, and closure. Each phase requires an array of internal reviews, streams of paperwork, and complicated procedures, resulting in a rigidly crafted blueprint design of the development project.

The detailed blueprint of the project and the requirements of the system do not allow for the necessary flexibility and may inhibit the beneficiary input required for project sustainability. A 1988 internal evaluation of 62 AID health projects indicated that more than half either failed before the project ended or were unlikely to be continued after U.S. funds ceased.(6)

This high failure rate has been attributed to AID's top-down, blueprint project design and management approach, which impedes the ability of project field staff to make the necessary mid-course corrections during project implementation.(7) It also has fostered an environment that discourages risk-taking and the use of creative problem-solving strategies that may deviate from the project design.

Although changes may be warranted to respond to the uncertainties inherent in all phases of the project cycle, the standardized, rigid structure of the project cycle specified in AID's operational project handbooks does not allow sufficient flexibility. AID has streamlined some of its project requirements to allow for greater flexibility in certain regions of the world and plans to adapt these simplified procedures agencywide in early fiscal 1994.

The number of distinct steps necessary for project approval involving field, headquarters, and Congress results in a burdensome, duplicative, and time-consuming system. Frequently, a project can take up to three years before it begins. By the time a project gets off the ground, the assumptions built into the project design and the initial project participants may have changed. Continuity is lost. The implementation team attempts to carry out a project that was sometimes planned by another team three years earlier. Adding to the problem is AID's overseas contracting and procurement system, which often impedes project results by contributing to logistical delays, higher costs, and customer dissatisfaction.(8)

The incentives at AID tend to reward work in one part of the project management cycle (design and obligation of funds) at the expense of others (e.g., start-up, implementation, evaluation, results). People are rewarded for designing new projects, not necessarily for implementing them.

The General Accounting Office (GAO) recently suggested in a draft report that the push to obligate earmarked funds drives AID to fund million-dollar projects to which the host country is indifferent, as in the case of judicial reform initiatives in Central America.(9) In the area of implementation, more focus has been placed on audit trails, processes, and resource accounting than on how or if the project is achieving results. Evaluations focus greater attention on inputs (number of activities) than outputs (project impact).(10)

The mission director in each host country has ultimate responsibility and accountability for a specific

AID project in his or her jurisdiction. Ensuring that the project works on a day-to-day basis, however, involves many people working on separate pieces. The AID project officer often is assigned to a project that was designed, budgeted, and authorized by others and is rarely present throughout the entire life cycle.

One reason for this is that AID projects are generally long-term, while Foreign Service personnel have shorter rotation assignments. It should be noted that this is addressed under a separate AID recommendation which allows for longer stays in host countries. The current structure fragments accountability. Project development involves the whole range of mission staff, from legal advisors to contracting officers, to ensure compliance with AID's rules and regulations. It appears that everyone is involved, yet nobody is really in charge to ensure overall project results. Noted management specialist Michael Hammer summarized the problem:

Classical business structures that specialize work and fragment processes are self-perpetuating because they stifle innovation and creativity in an organization . . . are unresponsive to large changes. . . . [I]nflexibility, unresponsiveness, the absence of customer focus, an obsession with activity rather than result, bureaucratic paralysis, lack of innovation, high overhead--these are the legacies of one hundred years of American industrial leadership.(11)

Compounding the problem, AID relies heavily on different outside contractors to handle separate phases of the same project. A project could be designed by one contractor, implemented by another, and redesigned by still another contractor. Contractors are evidently relied upon to provide skills not available within AID and to compensate for reduced staffing levels. Many staff do not have the training required for AID's new program directions of environment and democracy, including management of judicial reform projects in Latin America.(12)

As a result, AID sometimes pays contractors at U.S. rates for work that indigenous organizations might be able to do at the local rate for a fraction of the cost. Indigenous organizations are those that have been formed by the local population within the host country. Although U.S. contractors are needed in countries where technical expertise is lacking, there is a definite advantage in using the growing reservoir of host country professionals and indigenous organizations to assist with development projects. AID's existing policies, which create incentives that encourage U.S. contractors to form partnerships with indigenous organizations, are among the steps that AID has taken to help indigenous organizations strengthen their institutional capabilities.

Many procedures and incentives, however, preclude the full involvement of intended beneficiaries such as indigenous organizations in developing countries. Even though many AID staff expressed interest in working directly with indigenous organizations, they cited a number of requirements in AID's operational project handbooks that are confusing and onerous and act as barriers to beneficiary participation. Some of the requirements include audit, financial statements, personnel systems, and an existing track record. Many indigenous organizations may not have access to such basics as typewriters and accountants that are standard for U.S. organizations but are luxuries in developing countries.

Experience has shown that projects that support and do not supplant community efforts within developing countries are more likely to achieve results. Many innovative and successful models have been structured to build upon the efforts of people within developing countries. The following four projects have been included in this report to illustrate how their processes, incentives, and structures have been designed to foster an environment that focuses the organization on results and the customer. AID



continues to rethink traditional approaches and processes to further its reinvention endeavors and has incorporated some of these innovations into existing projects. It should be noted that the following four projects represent only a few of the many innovations occurring within the development field.(13)

**The Grameen Bank of Bangladesh.** The Grameen Bank is an example of a development model in which credit has been used as an entry point for the poor and now serves as a catalyst for change.(14) It is not directly funded by AID, although AID has recently provided \$2 million to the Grameen Trust, which provides services and technical assistance to other microenterprise programs around the world. Basically, the Grameen Bank provides small loans to poor people who own less than half an acre of cultivable land or assets not exceeding the value of an acre of land. Loan repayment has been excellent. Grameen has helped its borrowers accumulate capital and generate employment opportunities.

The Grameen Bank was developed using careful experimentation to determine what did and did not work. It continues to evolve using this method. Grameen recognized early that there was no prescribed formula for development. Had the Grameen been designed under a rigid, blueprint approach, it no doubt would have failed in the project design phase. It needed the experimentation of a social learning process in the implementation phase for innovation, risk-taking, and flexibility to adjust to local conditions. It continues to learn from its mistakes and to respond to feedback drawn from all levels of the organization. People are encouraged to bring up problems and are rewarded for developing creative solutions for solving them. It has been very effective at balancing the administrative demands of the organization with the participatory demands of the local community.

Grameen's success is also attributed to its incentive structure. Borrowers organize themselves into small groups. The members support each other and apply pressure when needed to repay loans. This pressure substitutes for collateral. Incentives are organized in a way that creates an interdependency between bank workers and bank beneficiaries. Within the group, mutual accountability ensures repayment and project sustainability.

Grameen has received worldwide attention for being a development project that works very well. It has been successfully replicated in other countries when it has been adapted to fit their unique cultural and economic conditions. It is important to note that there is no Grameen blueprint. The Grameen Bank has worked in Bangladesh only after many years of experimentation.

**Canada's International Development Research Centre (IDRC).** The IDRC's mission revolves around the belief that the problems of developing countries cannot be solved by importing outside solutions. The IDRC promotes development by providing funds to developing country researchers who are working within their own country on solutions to their nation's problems. It also helps in the dissemination of research results so that the research findings can be widely applied. This approach offers research opportunities that build up scientific capacity and thereby reduces the scientific brain drain in developing countries. It relies on a board of directors who are all from developing countries. The Canadian government has given the IDRC complete latitude to accomplish its mission by keeping it free from micromanagement restrictions and structuring it in a way that insulates it from Canadian politics. This project offers a variety of lessons for development organizations on how people within developing countries can be supported to solve their problems.

**The Philippine National Irrigation Administration (NIA).** Local participatory approaches to development are often viewed as not particularly relevant to organizations such as AID, which mainly work with host country governments at the ministry level and rarely with rural villagers. NIA, however, is an example of

a large government agency in the developing world that implemented programs in ways that empowered local communities to take an active role in development activities. In fact, AID has promoted water users associations throughout Asia, based on NIA experience. AID has also worked with other donors to establish an international irrigation institute based on this model. It also provided funds in 1987 to NIA to support participatory approaches to irrigation systems.(15)

The NIA sponsored small-scale communal irrigation systems throughout the Philippines that involved local farmers from project initiation through implementation and evaluation phases. The NIA's program is one innovative approach to development that transformed itself from the conventional non-participatory approach where agency personnel viewed themselves as the implementors while the local farmers were considered passive beneficiaries, to a highly participatory one where farmers eventually took over the operations of the project and continued to sustain it through local fees.

Restructured incentives--such as partial recovery of collection fees and investment costs, amortization payments, clear points of responsibility for the results, and new performance measures based on financial viability where income exceeds expenses--encouraged greater participation and helped to curtail unnecessary spending, while promoting a sense of collective responsibility and ownership of the irrigation facilities.(16)

Since much of the AID funding is channeled through government agencies, this project offers a variety of relevant lessons about field approaches, organizational design, and management processes needed to transform the agency's role in developing countries from rowing to steering.(17) Although AID has incorporated many of these approaches in Asia, where AID sponsors irrigation and natural resource management, these methods could be expanded to other sectors and countries.

Inter-American Foundation (IAF). The IAF exists to support the efforts of indigenous organizations working on behalf of the poor in Latin America. Unlike AID, the IAF has no field presence. It accomplishes its mission through grants awarded directly to indigenous organizations. The IAF provides grants for projects that are initiated, designed, and implemented by indigenous people within host countries, and not by IAF staff. In-country support teams made up of indigenous people are responsible for monitoring and evaluating project performance. Although the IAF has been criticized for becoming too bogged down with regulations perceived as hampering innovation, its strength has traditionally been attributed to its unbureaucratic internal structure and decentralized decision making processes, which have helped the organization foster risk-taking and beneficiary participation and the freedom to experiment and learn from mistakes.

The importance of timely, accurate, and relevant information moving vertically and horizontally throughout an entire organization in all phases of the project process cannot be overestimated. One way that AID obtains feedback on its projects is through the evaluation process. It appears, however, that evaluation findings are not always acted upon or taken into account in the planning and budget allocation processes. Sometimes funding continues even after evaluations conclude that projects are producing no benefits and the host country has not demonstrated a commitment to the project.

Several external barriers prevent AID from withdrawing funds from unsuccessful projects. These include:

- congressional earmarking of funds in statutes and related reports,
- contract commitments and concerns about possible litigation,

- the political difficulty of reallocating committed funds,
- rigid and complicated planning systems, and
- consideration of the views and commitments of contractors and grantees such as U.S. non-governmental organizations (NGOs) and U.S. private voluntary organizations (PVOs).

AID's 1992 In-Country Presence Report concludes that because the programs are broad and staff is increasingly stretched thin, AID missions may be working in isolation from other donors, with the result that missions can be unaware of donor activities within the same sector or country.<sup>(18)</sup> This could result in a very skewed approach to development, with some regions inundated with too much funding, while others are totally ignored.

## **Actions**

1. AID should reengineer the project and program management processes to emphasize innovation, flexibility, and beneficiary participation.

Efforts should focus on:

- organizing around project outcomes;
- identifying and removing steps, procedures, and requirements, both internally and externally imposed, that do not add value to the process and create impediments to accomplishing project results;
- redesigning jobs, functions, structures, and other processes (e.g., contract and procurement systems), that support project results;
- putting the decision point where the work is performed and building control into the process;
- improving continuity and accountability for projects by timing rotation assignments so they encompass to the extent possible the project life from design through closure; and
- identifying and removing barriers that impede the full participation of indigenous populations and creating incentives for their inclusion in all phases of the project management cycle.

2. The AID administrator should designate selected AID missions as pilots to experiment with innovative approaches to programming and delivery of AID assistance.

These missions should be given waivers on rules and regulations that are deemed impediments to achieving project results. The four models presented in this report provide a number of innovative approaches that could be adapted for AID projects.

3. AID should structure the reward and incentive system in project and program management to ensure that performance and accountability are linked to accomplishing project results and that innovation is encouraged.

Project success should be the primary factor in evaluation. Rewards and incentives should be designed to create project success based on interdependency between key players. AID staff and project beneficiaries should be rewarded on project success based on clear performance indicators including mutual accountability, cooperation, and results. For example, performance appraisal systems should include beneficiary satisfaction and quality of beneficiary participation as performance indicators to measure

AID's staff and contractor performance at the field level.

Likewise, host countries should be required to demonstrate sufficient commitment toward a project before it begins. Future project funding should take into account host country performance on existing projects. Where appropriate, future contract and grant awards should take into account a contractor's past performance and its ability to establish collaborative linkages to indigenous organizations.

Incentives should also be included that reward innovative approaches to development at the field level. The projects listed in this report provide a number of ways that organizations can encourage innovation. These models should be analyzed and adapted for AID use in the field and headquarters where appropriate.

4. AID should establish systems for continuing critical review of all existing projects to ensure that they are achieving desired outcomes.

As part of this review, each mission should address the following:

--- How does the project relate to new priorities described by the AID administrator?

--- Are local conditions in place to ensure project success?

--- Are results on track?

--- If not, can the project be salvaged in an appropriate period of time (e.g., 6 to 12 months)?

Reviews should determine whether projects need to be terminated or provided additional funding. AID should identify and remove existing internal and external barriers that have prevented the agency from terminating unsuccessful projects. Mechanisms are needed to ensure that resources continue to flow to those activities that achieve results.

5. AID should strengthen the project and program evaluation process and integrate it into the planning, budget, and project allocation processes.

AID should develop mechanisms that incorporate evaluation findings into all stages of the decision making process. Evaluations should be used to help guide managers with planning, budget, and project allocation decisions. Evaluations should focus on results. Funding for projects that are not producing any benefits should be discontinued.

Impact evaluations should be more than lessons learned. They need to be taken seriously and their recommendations should be acted upon. It needs to be recognized that this may require strengthened analytical capabilities at AID. Increased focus on results in other assessment and accountability mechanisms, such as audits, inspections, and other reviews, would assist managers in planning, budgeting, and project allocations.(19)

6. AID should improve donor coordination, both at headquarters and in the field.

AID mission directors should designate an officer responsible for coordinating the efforts of the AID mission and other donors. Where appropriate, all AID mission staff should be encouraged to coordinate policies and leverage resources through such means as extensive consultations, joint ventures, and partnerships with other donors.

## **Implications**

These recommendations support the reinvention efforts outlined by the AID administrator. Overall, they are intended to create a high- performance, results-driven agency. At AID, the internal structures, external barriers, and burdensome procedures that have accumulated over the years make it more difficult to achieve program results.

Reengineering the project management system under a Grameen-type social learning model of development could provide a more effective process, supporting creativity and flexibility while focusing on the customer to achieve project results. Incentives that tie performance to results will increase productivity and ensure accountability to beneficiaries.

The system and processes will be adapted to bring in the customer at each stage of the development process. By focusing on the customers (in this case the project beneficiaries), projects will be designed to adapt to local conditions. Bringing indigenous groups more directly into the project cycle will ensure that projects better reflect their needs. As a result, greater beneficiary ownership will be achieved to ensure sustainability and accountability. AID will leverage resources in collaboration with other donors and NGOs to support host country activities.

Projects deemed unsuccessful in the evaluation process should be phased out. Reallocated resources will flow to projects that are tied to new priorities and are actually achieving results. Although these recommendations target the project cycle, they can also be applied to AID programs and non-project activities that may encounter the same types of problems experienced in the project cycle.

## **Fiscal Impact**

The specific savings associated with reengineering the project and program management system cannot be determined. Reduction of overhead administrative costs, increased reliance on indigenous populations, stringent reviews, and termination of unsuccessful projects could result in substantial savings. The process of reengineering is long and arduous, and an increased focus on strategic planning and evaluation may result in up-front costs. This is not expected, however, to create new spending demands. On the contrary, the removal of existing internal and external barriers should reduce costly administrative overhead. This should offset any added costs incurred as the agency reengineers its management of projects and programs.

## **Endnotes**

1. The President's budget request as shown in the Congressional Presentation Fiscal Year 1994 (Washington D.C., April 1993), pp. 21- 23, and as amended by the President's request for an additional \$200 million for the former Soviet Union.
2. Hellinger, Stephen, Douglas Hellinger, and Fred M. O'Regan, *Aid For Just Development: Report on the Future of Foreign Assistance* (Boulder and London: Lynne Rienner Publishers, Inc., 1988), p. 22.
3. Ibid.
4. Ibid.
5. Gang, Ira N., and James A. Lehman, "New Directions or Not: USAID in Latin America," *World Development*, vol. 18, no. 5 (1990), pp. 723- 732.

6. Rondinelli, Dennis, "Reforming U.S. Foreign AID Policy: Constraints on Development Assistance," *Policy Studies Journal*, vol. 18, no. 1 (Fall 1989), p. 74.
  7. *Ibid.*, pp. 67-85.
  8. U.S. General Accounting Office, *Foreign Assistance: AID Can Improve Its Management of Overseas Contracting*, NSIAD-91-31 (Washington, D.C.: General Accounting Office (GAO), October 1990), pp. 25-35.
  9. U.S. General Accounting Office, *Foreign Assistance: Promoting Judicial Reform to Strengthen Democracies*, Draft Report, NSIAD-93-149 (draft), pp. 1-25.
  10. *Ibid.*, p. 5.
  11. Hammer, Michael, and James Champy, *Reengineering the Corporation: A Manifesto for Business Revolution* (New York: HarperCollins Publishers, Inc., 1993), pp. 28-30.
  12. See, for example, U.S. General Accounting Office, *Foreign Assistance: Promoting Judicial Reform to Strengthen Democracies* (draft), p. 5.
  13. Further innovative approaches can be found in Browne, Stephen, *Foreign Aid in Practice* (New York: New York University Press, 1990), pp. 147-153. They include the Saemaul Undong in South Korea, Sarvodaya Shramadana in Sri Lanka, Aga Khan Rural Support Programme in Pakistan, Harambee in Kenya, Amual Dairy Cooperative in India, environmental movements such as Chipko in India and the "Six S" in West Africa, urban slum groups in Santa Marta in Rio de Janeiro, Tondo in Manila, and Long Toey in Bangkok.
  14. See Hossain, Mahabub, *Credit for Alleviation of Rural Poverty: The Grameen Bank in Bangladesh* (Washington, D.C.: International Food Policy Research Institute, February 1988), pp. 1-89, for more detailed analysis on quantifiable results achieved through the Grameen Bank.
  15. See Korten, Frances F., and Robert Y. Siy, Jr., *Transforming a Bureaucracy: The Experience of the Philippine National Irrigation Administration* (West Hartford: Kumarian Press, Inc., 1988), for further analysis.
  16. *Ibid.*
  17. *Ibid.* See also Osborne, David, and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector* (Reading, MA: Addison-Wesley Publishing Company, Inc., 1992), for a fuller discussion of innovation in government.
  18. Agency for International Development, "AID's In-Country Presence: An Assessment," Washington, D.C., October 1992, p. 32.
  19. See also the NPR Accompanying Report *Mission-Driven, Results- Oriented Budgeting*.
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# Agency for International Development

## Recommendations and Actions

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# Agency Reinvention Activities

## Introduction

In his confirmation hearing on April 29th, the administrator of the Agency for International Development (AID), J. Brian Atwood, declared that he did not want reinvention efforts to be limited to a few pilot projects. Instead, he announced that the entire agency would be offered up as a reinvention laboratory. Since then, Administrator Atwood has taken a number of steps to turn rhetoric into reality. Comprehensive plans are underway to transform AID into a high performance, results-driven organization that can respond effectively and efficiently to global challenges.

There is widespread recognition that AID must change profoundly if it is to be relevant in the post-Cold War era. This agreement on the need for fundamental change encompasses AID career staff, other U.S. government agencies, Congress, and the public. It is an important asset that supports AID reinvention efforts. But it also presents a complicated challenge because there are diverse views on what kind of change is appropriate. The recently completed report by the Deputy Secretary of State has started to resolve this debate. That report will be the basis for establishing a broad consensus on the appropriate role and function of AID.

AID reinvention efforts encompass a wide number of activities. A Quality Council representing a cross-section of AID employees has been established to coordinate the reinvention plans. This Council meets weekly to review reinvention efforts and to the greatest extent possible ensure that all AID employees are given the opportunity to get involved in the reinvention process. To date, reinvention efforts include:

- New mission and vision statements. Working with AID political leadership, the Quality Council has developed new draft vision and mission statements for review, revision, and dissemination within the agency.
- Reorganization. A new organizational structure has been proposed to emphasize managing for results, creating incentives for individuals, accountability for results, reducing unnecessary bureaucratic layers, and streamlining procedures.
- Strategy statements. Agency leadership has identified four priority areas for AID (population and health, the environment, democracy, and economic growth). Strategies have been developed to provide coherence and direction to AID programs.
- Reengineering the programming system. AID is dramatically simplifying and reducing the four bulky handbooks governing the way the agency programs its funds, and is actively exploring new ways to ensure that the programming process will emphasize results, rather than inputs. Pilot efforts are being initiated in selected field programs.
- Rightsizing the field presence. AID has reviewed all countries where it presently has activities and

has identified specific steps to phase out some programs, reduce the size of other field offices, and achieve economies by consolidating some services.

- Simplifying the information flow. AID has adopted an agencywide information systems plan that is a model for other agencies. This will involve analyzing and reengineering core business areas. Unnecessary reporting requirements are being identified and (where these are entirely within the authority of the agency) will be eliminated; consultations are underway with Congress on reducing congressionally mandated reports; an integrated financial system is being developed; and electronic processing of routine transactions (such as travel vouchers) is being initiated.

## **Vision for the Future**

Within the next five years, AID will become a leaner, more focused organization with a clearly defined mission. To a significant extent, the success of AID's reinvention efforts will depend on its ability to secure cooperation and support from other key executive branch agencies (such as the State Department and the Office of Management and Budget) and Congress. In addition, a focus on results will mean that the current programming, monitoring, and auditing systems overwhelmingly geared to tracking inputs will have to be reexamined.

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# Agency for International Development

## Summary of Fiscal Impact

Change in Budget Authority by Fiscal Year  
(Dollars in Millions)

| Recommendation |      |      |      |      |      |      |                         |
|----------------|------|------|------|------|------|------|-------------------------|
|                | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | Total Change<br>in FTEs |
| AID01:         | cbe  | cbe  | cbe  | cbe  | cbe  | cbe  | cbe                     |
| AID02:         | cbe  | cbe  | cbe  | cbe  | cbe  | cbe  | cbe                     |
| AID03:         | n/a  | n/a  | n/a  | n/a  | n/a  | n/a  | n/a                     |
| AID04:         | cbe  | cbe  | cbe  | cbe  | cbe  | cbe  | cbe                     |
| AID05:         | n/a  | n/a  | n/a  | n/a  | n/a  | n/a  | n/a                     |
| AID06:         | cbe  | cbe  | cbe  | cbe  | cbe  | cbe  | cbe                     |
| AID07:         | cbe  | cbe  | cbe  | cbe  | cbe  | cbe  | cbe                     |
| Total          | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0                       |

## Change in Outlays by Fiscal Year

(Dollars in Millions)

| Recommendation | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | Total |
|----------------|------|------|------|------|------|------|-------|
| AID01:         | cbe  | cbe  | cbe  | cbe  | cbe  | cbe  | cbe   |
| AID02:         | cbe  | cbe  | cbe  | cbe  | cbe  | cbe  | cbe   |
| AID03:         | n/a  | n/a  | n/a  | n/a  | n/a  | n/a  | n/a   |
| AID04:         | cbe  | cbe  | cbe  | cbe  | cbe  | cbe  | cbe   |



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# Accompanying Reports of the National Performance Review

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| Governmental Systems                        | Abbr. |
|---|-------|
| Changing Internal Culture                   |       |
| *****                                       |       |
| Creating Quality Leadership and Management  | QUAL  |
| Streamlining ManagementControl              | SMC   |
| Transforming OrganizationalStructures       | ORG   |
| Improving Customer Service                  | ICS   |
| *****                                       |       |
| Reinventing Processes and Systems           |       |
| Mission-Driven, Results-Oriented Budgeting  | BGT   |
| Improving Financial Management              | FM    |
| Reinventing Human Resource Management       | HRM   |
| Reinventing Federal Procurement             | PROC  |
| Reinventing Support Services                | SUP   |
| Reengineering ThroughInformation Technology | IT    |
| Rethinking Program Design                   | DES   |
| Restructuring the Federal RoleStrengthening |       |
| the Partnership in Intergovernmental        |       |
| Service Delivery                            | FSL   |
| Reinventing Environmental Management        | ENV   |
| Improving Regulatory Systems                | REG   |
| *****                                       |       |
| Agencies and Departments                    | Abbr. |
| *****                                       |       |
| Agency for International Development        | AID   |
| Department of Agriculture                   | USDA  |
| Department of Commerce                      | DOC   |
| Department of Defense                       | DOD   |
| Department of Education                     | ED    |
| Department of Energy                        | DOE   |
| Environmental Protection Agency             | EPA   |
| Executive Office of the President           | EOP   |
| Federal Emergency Management Agency         | FEMA  |
| General Services Administration             | GSA   |
| Department of Health and Human Services     | HHS   |
| Department of Housing and Urban Development | HUD   |
| Intelligence Community                      | INTEL |
| Department of the Interior                  | DOI   |

|  |      |
|--|------|
| Department of Justice  | DOJ  |
| Department of Labor  | DOL  |
| National Aeronautics and Space Administration                          | NASA |
| National Science Foundation/Office of Science<br>and Technology Policy | NSF  |
| Office of Personnel Management   | OPM  |
| Small Business Administration  | SBA  |
| Department of State/<br>U.S. Information Agency                        | DOS  |
| Department of Transportation   | DOT  |
| Department of the Treasury/<br>Resolution Trust Corporation            | TRE  |
| Department of Veterans Affairs   | DVA  |

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